

THE FINANCIAL COLLAPSE OF ENRON—Part 3

HEARING
BEFORE THE
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES
ONE HUNDRED SEVENTH CONGRESS
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THE FINANCIAL COLLAPSE OF ENRON—Part 3

THURSDAY, FEBRUARY 14, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 11 a.m., in room 2322, Rayburn House Office Building, Hon. James C. Greenwood (chairman) presiding.

Members present: Representatives Greenwood, Bilirakis, Stearns, Largent, Burr, Tauzin (ex officio), Deutsch, Stupak, Strickland, DeGette, John, Rush, and Dingell (ex officio).

Also present: Representatives Ganske, Markey, Green, and Jackson-Lee.

Staff present: Tom DiLenge, majority counsel; Mark Paoletta, majority counsel; Michael Geffroy, majority counsel; Peter Kielty, legislative clerk; Will Carty, legislative clerk; Brendan Williams, legislative clerk; Edith Holleman, minority counsel; Consuela Washington, minority counsel; Jonathan Cordone, minority counsel; and Chris Knauer, minority investigator.

Mr. GREENWOOD. Good morning. This hearing of the Oversight and Investigations Subcommittee of the Energy and Commerce Committee will come to order.

The Chair recognizes himself for an opening statement.

"I wish we could get caught. We're such a crooked company." Of all of the words in the now famous memo our witness sent to Kenneth Lay in August of last year, these might be the most chilling.

According to this morning's witness, the person who uttered those words was a management level employee of Enron, a team player, a person who probably stood to lose a great deal in any financial collapse at Enron. What is the truth behind Enron's precipitous collapse?

This morning we have before us, as our sole witness, Ms. Sherron Watkins, Enron's Vice President of Corporate Development. Ms. Watkins has become known as the lone voice who sought to warn Enron Chairman and CEO Ken Lay that Enron was in danger of imploding "in a wave of accounting scandals." Subsequent events have proved the truth of that unvarnished assessment.

But we now understand from evidence this committee has gathered in its investigation, from the materials contained in the Powers Report, and from testimony of senior Enron officials at last week's hearing, that these so-called aggressive accounting practices were used to hide an even larger business failure.

Last week we took testimony from two senior Enron officials, Jordan Mintz and then treasurer, now Enron President and Chief Operating Officer, Jeffrey McMahon. They, too, anguished that something was terribly wrong at Enron, but were unable to determine the full extent of the problems or the dangers ahead.

Unlike them, our witness this morning was privy to substantially more evidence of the accounting practices used to hide various related party transactions between Enron and what are known as the Raptor entities—special purpose entities owned by LJM2, the limited partnership set up and run by Enron and its former Chief Financial Officer, Andrew Fastow. She will testify today that, in her opinion, these transactions were outright manipulations of Enron's income statements, booking fictitious income, and hiding actual losses.

Ms. Watkins took her concerns right to the top. She wrote a memo to Mr. Lay on August 15 that set forth in stark terms the seriousness of Enron's situation and the dire consequences that would inevitably result if corrective action were not taken, and soon.

We now know that Ms. Watkins also met with Mr. Lay not just once, as has been previously disclosed, but on two additional times in late October of last year, to further share her concerns and to urge that Enron restate its income statements for the past 2 years due to the deceptive transactions with the Raptors special purpose entities. Yet, until the Powers Report came out 2 weeks ago affirming her analysis of the Raptors, no one at Enron, or Andersen ever sought to address these concerns.

Indeed, the actions taken by Enron in October and November of last year to revise its earnings and shareholder equity numbers still fail to address many of the concerns raised by Ms. Watkins and confirmed by the Powers Report.

Ms. Watkins also will describe today her meetings and conversations with others throughout Enron's corporate hierarchy, as well as with outside advisors. This included Mr. McMahon, Associate General Counsel, Rex Rogers, Vice President for Human Resources Cindy Olson, James Hecker, an Andersen audit partner, and Vinson & Elkins managing partner Joe Dilg.

Her initial meeting with Mr. Lay in August prompted an investigation by Vinson & Elkins, assisted by Andersen, the very two parties Ms. Watkins urged Mr. Lay and others not to include in the review because of clear conflicts of interest. Not surprisingly, the report that Vinson & Elkins issued on October 15 was so flawed that Ms. Watkins seriously considered leaving the company.

Instead, she persisted in her attempts to convince Mr. Lay of the enormity of the challenge facing Enron and the failure of outside experts to clearly state the facts. It wasn't until October 31 that Ms. Watkins learned that a Special Committee of the Board of Directors would examine Enron's questionable business practices. This investigation has since become known as the Powers Inquiry.

Ms. Watkins' appearance and testimony before us today will be the first time anyone has had the opportunity to question her publicly about her own actions and how individuals at the highest level in the company responded to her warnings.

Let me point out that Ms. Watkins is not a whistleblower in the conventional sense. She was, and is, a loyal company employee, who sought valiantly, and sadly in vain, to get the people in charge to face the facts and make the hard choices needed to save the company. Ms. Watkins is still an Enron employee, and because of this fact has requested a subpoena compelling her testimony today.

I want to point out, however, that she has been responsive to and very cooperative with our investigators. And I look forward to her sharing with the subcommittee and the American public, in her own words, how it came to be that, at the end, a once faithful employee concluded that her company was cooking the books.

Ms. Watkins, thank you for your help. We welcome your testimony.

[The prepared statement of Hon. James C. Greenwood follows:]

PREPARED STATEMENT OF HON. JAMES C. GREENWOOD, CHAIRMAN, SUBCOMMITTEE
ON OVERSIGHT AND INVESTIGATIONS

“...I wish we would get caught. We’re such a crooked company.”

Of all the words in the now famous memo our witness sent to Kenneth Lay in August of last year, these might be the most chilling.

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I want to point out, however, that she has been responsive to and very cooperative with our investigators.

And I look forward to her sharing with the Subcommittee and the American public, in her own words, how it came to be that, at the end, a once faithful employee concluded that HER COMPANY WAS COOKING THE BOOKS.

Ms. Watkins, thank you for your help and we welcome your testimony today.

Mr. GREENWOOD. The Chair recognizes the gentleman from Florida, Mr. Deutsch, for his opening statement.

Mr. DEUTSCH. Thank you, Mr. Chairman.

And thank you, Ms. Watkins, for being here. You know, this is obviously our continuation of trying to understand what happened at Enron and really looking at it and looking at the future.

And I really want to take a couple of seconds just thanking the chairmen of the subcommittee and the full committee, but also the staff. I think our staff has really done an incredible job over the last about 8 weeks or so. This subcommittee has a long history in the Congress of looking at issues of really cases of failures, of corruption.

And Chairman Dingell, who led this subcommittee for so many years, created almost a historic reputation for this subcommittee. And I believe that this hearing and this process that we are doing is part of that.

You know, I've tried to put in perspective what we're doing and where we hope to lead. And it's not just an investigation for an investigation's sake. But I think all of us at this point, we know a lot more than we knew a week ago, a lot more than 2 weeks ago. The issues I think are much broader than just Enron. The issues really are our capital systems and the transparency in the accounting system.

And I think what we all understand is that our economy, which is the strongest economy in the history of the world, one of the reasons that we have that economy is transparency in the capital markets and the public accounting system. And I don't think there's a question that that totally abysmally failed in the case of Enron. I mean, I think it's factually accurate that it failed. That trying to understand Enron from its public documents I think was close to impossible. That those documents did not fairly represent the actual state of the company.

And the Secretary of the Treasury, when Enron initially filed for bankruptcy, said that, "Well, this is not a big deal. Companies go

bankrupt. They don't go bankrupt. They're successful." I take great exception to that. There have been several major companies in America that have gone bankrupt since Enron. Kmart has gone bankrupt, Global Crossing has gone bankrupt. But there is a fundamental difference.

Public markets knew what was going on in those companies. It was transparent. It was reflected in equity value. People could understand what was going on. In the case of Enron, that was not the case. The seventh largest company in America vaporized in literally a matter of weeks, and the house of cards fell.

And as we're looking at transaction after transaction after transaction—and, again, the number at this point—our understanding is there were 4,000 of these partnerships, and the Raptors were probably the largest, but just several—that the methods seemed to be continuously used again and again.

I guess the concern we have, and I have—but I think all of my colleagues share—is, No. 1, you know, how do we protect our capital markets from, No. 1, this never happening again? Because I think that is clearly our goal. That when people try to understand public companies they can understand. That is the whole point. But, No. 2, who else is doing this?

And, obviously, I don't think you are going to be able to tell us that today. But I think that is clearly, you know, a critical component that you, as someone who was watching what was going on, understood what was going on, and if there are other companies out there that are out there doing this, obviously people in those companies know it as well.

And I guess one of the things that hopefully will happen is that it will immediately be reflected in statements in their filings to the SEC.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the Chairman of the full committee, the gentleman from Louisiana, Mr. Tauzin, for an opening statement.

Chairman TAUZIN. Thank you, Mr. Chairman. Let me first thank you, Mr. Chairman, and the incredible work of the Democratic and Republican joint investigatory staff. You have done, I think, our country a great service, and you continue to do so with these hearings. And I deeply appreciate—I know I speak for all of the members—your personal commitment to this task.

Let me first observe that as a result of these hearings and the incredible new information that our witness will provide us with today, I think America is learning what went wrong at Enron. More importantly, corporate executives across America are reassessing corporate management, and board members across America are beginning to ask hard questions and to become significantly more involved and concerned in the operations of their companies.

The SEC has announced planned reforms. FASB has announced planned reforms. This subcommittee and the committee that we have assigned the job of jurisdiction over FASB and the accounting standards in America, shared by Cliff Stearns of Florida, is beginning the process of recommending legislation to our full committee.

Yesterday, the Subcommittee on Energy and Air Quality of our committee examined the aspects of the Enron collapse on the en-

ergy markets of America, and we are investigating allegations of potential damage done. Generally, the news is good. The energy markets held up. Electricity flowed. Gas flowed. Somehow companies worked around the financial collapse of Enron and continued to deliver energy at reasonable prices—in fact, lower prices—to the American public during this crisis.

And today we will hear from an officer of the Enron Corporation who really knew and who really understood who the culprits were within her own company, and who did her best to make sure that those in control of her company, if they had been kept in the dark, were no longer in the dark, and understood the problems the company faced.

There is a doctrine in law called the last clear chance. It is a doctrine that says that even if you are totally in the right on the highway, if you had the last clear chance to avoid the accident, you can still be responsible for what happened.

Our witness today will talk about how she attempted to give the leadership at Enron a last clear chance, not just to do what was right in correcting its filings with the American public and the investors in this company, but to do what was right in getting rid of culprits, in assigning responsibility, in accepting responsibility, and in correcting the problems, in the hope that there was still a chance to save the corporation from the bankruptcy that it now faces.

We will learn whether the company took that last clear chance. I don't think there's anything more prophetic in the document we have now received from our witness describing her evaluation of the culprits, of what had happened, who was responsible for it, and what had to be done if the company was going to have a chance to be saved.

In the last paragraphs of that memo which our witness handed Mr. Ken Lay on October 30, I quote, "My conclusions if Ken Lay takes these steps. The bad news, this is horrific. Plaintiff attorneys will be celebrating. The trouble facing the company will be obvious to all. The good news, the wild speculations will slow down, if not cease. Nobody wants Ken Lay's head. He is very well respected in business and the community."

And then she identifies the culprits. "The culprits are Skilling, Fastow, Glisan, Causey, as well as Arthur Andersen, and V&E."

In the final paragraph, we find, "My conclusions if we don't come clean and restate. All these bad things will happen to us anyway. It is just that Ken Lay will be more implicated in this than is deserved, and he won't get the chance"—I might add, the last clear chance—"to restore the company to its former stature."

What we are learning and what will be confirmed today, I believe, by this witness is that we have witnessed an incredible—an incredible collection of not only miscreants and potential criminal behavior, but a series of abuses, of accounting standards and practices, a series of abuses of the American public investing—the investing public in its confidence in this company, in its knowledge about its income and its debt, abuse that led to a horrible loss to its employees, not only their jobs but of their pensions, and abuses that have rocked Wall Street and the investment communities and the corporate boards of America.

If there is any good news in all of this, it is that we are finding out what went wrong. We are really getting to the bottom of it, and we are learning how we might turn the corner and begin to make improvements in our laws and our rules to help make sure that no other company ever experiences this again.

If there is other good news—and I say this with deep appreciation, Ms. Watkins—it is the knowledge that there are people like you in this world who are willing to try to make it right, who understand their fiduciary responsibility to their company, and are willing to go out on a limb, as you did, to make sure that people who could make a difference, who could change things, who could make it right, and who could save that company, did have at least a last clear chance to do it.

And there is one other good news. I have a perspective that I think more and more members are beginning at least to share. There may be other problems in other companies in America. This is incredibly an aberration. I have never, in all of our years of watching companies succeed and fail and bankruptcies—and there have been some mighty big bankruptcies in this country—seen anything like this.

When we are through examining it and responding to it, I think the American public will be well served by the process of learning from this experience and the changes we're going to make. And the witness who comes before us will deserve, again, the appreciation of the American public for doing what she did and for standing out the way she has.

And I deeply appreciate your being here, Ms. Watkins.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and, before recognizing the ranking member of the full committee, would announce that we have apparently two votes before us now. So after Mr. Dingell's opening remarks, we will recess and make these two votes and come back.

Mr. DINGELL. I am willing to do it whichever way you like, Mr. Chairman—go now or go later.

Mr. GREENWOOD. Well, I would welcome the gentleman's opening statement right now, and the other members—

Mr. DINGELL. Very well.

Mr. GREENWOOD. [continuing] are free to go.

Mr. DINGELL. Mr. Chairman, thank you for holding this hearing, and I commend you and the committee for continuing the investigation into the actions that caused Enron, once the seventh largest company in the country, to become the largest bankruptcy in the history of the country.

Each hearing that we have held, and I expect we will be holding more, reveals more of the internal corruption that destroyed Enron. This corruption swept in Enron's top management as well as its in-house and outside accountants and lawyers, all of whom reviewed and approved the transactions we discuss today. All of them apparently knew that Enron was pledging its stock to guarantee its own hedges with an alleged outside party.

This is clearly a violation of all accounting procedures and principles, and apparently one that the Houston office of Arthur Andersen approved over the opposition of its Chicago office. It led directly

to a \$1.1 billion reduction in Enron's equity and a \$700 million reduction in earnings. These same people knew that a partnership run by Enron's chief financial officer was benefiting greatly from these transactions. All of them, and an unquestioning Board of Directors, did nothing.

I want to thank Ms. Watkins for the heroic efforts she made to help Enron avoid this, in her own words, "implosion in a wave of accounting scandals." Ms. Watkins took the actions that should have been taken months before by many others, both inside and outside Enron, with fiduciary duties to the company and to its shareholders. I applaud her. It is never easy to be a whistleblower, particularly in a company where the mentality did not encourage negative news and negative views. Bearers of bad news are often punished.

Today, we are going to concentrate on the Raptor transactions, which have been described in the Report of the Special Committee as "extremely complex Raptor structured finance vehicles" designed to allow Enron to "avoid reflecting losses in the value of some merchant investments in its income statement." We cannot fully understand the structure of these vehicles, but we know they are breathtaking in scope and breathtaking in audacity and in their impact.

These four vehicles resulted in a write-down of equity, the restatement of earnings, and the credit rating reduction that sank Enron. Although the Raptors were supposed to take the risk of losses in merchant investments, they actually guaranteed by Enron's stock and used the appreciation in Enron's stock value to increase earnings. This is a violation of all basic accounting principles.

The accounting shenanigans that permitted such returns were instigated and/or approved by Andrew Fastow, Enron's Chief Financial Officer; Richard Causey, Enron's Chief Accounting Officer; Rick Buy, Enron's Chief Risk Management Officer; Arthur Andersen; and by Vinson & Elkins, Enron's outside counsel.

The Raptors also benefited greatly LJM2, a special purpose entity run by Mr. Fastow. Although they were supposed to hedge potential losses in some of Enron's merchant investments, they actually repaid LJM2's total investment plus some very generous returns with Enron taking the total risk. As described in an LJM2 presentation to its partners in October of 2000, Raptor III, for example, paid out \$41 million on a \$30 million investment in just 8 days. This is an amazing 2,503 percent annual return for those investors.

I think it is important to note for the record, Mr. Chairman, that Mr. Fastow, Mr. Causey, Mr. Buy, and Arthur Andersen have all been removed from their positions, perhaps too late, but gone anyway.

But Enron has supported Vinson & Elkins, which approved every single one of these deals for Enron, and then papered over Ms. Watkins' allegations in a report finding not a single transaction with LJM was "contrary to Enron's best interests," to this day. The law firm's written report was issued just 1 day before Enron announced its equity write-down and earnings reductions based on the very Raptor transactions that Ms. Watkins brought to Kenneth Lay's attention.

I think it would be quite appropriate to devote a hearing to the role Enron's legal counsel played in this fiasco that took \$70 billion from the pockets of unsuspecting shareholders and employees. And I note that their role in this does no credit to the profession of which I take pride in being a part.

But today I look forward to hearing from an extraordinarily courageous woman who has been a bright spot in an otherwise sorry and outrageous saga. Ms. Watkins, we thank you.

Mr. Chairman, I thank you.

[The prepared statement of Hon. John D. Dingell follows:]

PREPARED STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MICHIGAN

Mr. Chairman, thank you for holding this hearing as the Committee continues its investigation into the actions that caused Enron, once the seventh largest company in the country, to become the largest bankruptcy in history. Each hearing that we have held—and I expect that we will hold several more—reveals more of the internal corruption that destroyed Enron. This corruption swept in Enron's top management, as well as its in-house and outside accountants and lawyers, all of whom reviewed and approved the transactions that we are discussing today. All of them apparently knew that Enron was pledging its stock to guarantee its own hedges with an alleged outside party.

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But today, I look forward to hearing from an extraordinarily courageous woman who has been a bright spot in an otherwise sorry and outrageous saga.

Mr. GREENWOOD. The Chair thanks the gentleman, and the committee will recess for approximately 20 minutes.

[Brief recess.]

Mr. GREENWOOD. The committee will come to order. The Chair recognizes the gentleman from Florida, Mr. Stearns, for an opening statement.

Mr. STEARNS. Thank you, Mr. Chairman.

And, Ms. Watkins, obviously, like other members, we would like to take the opportunity to welcome you to our committee, and we are pleased that you are willing to testify.

Your status is perhaps not, as the press might outline, that you are a whistleblower. You are not the traditional whistleblower in the sense that you are still working for the company. And the way you did it was commendable, in the sense that you went to different people and talked to them, and you asked for a transfer to another part of the company. But in a sort of semantic way, you are not a whistleblower in the traditional sense, and I am not sure if we have a word for—which describes when you stay within the company and work as you did, but it is—I think it was very effective and helpful for us.

I believe that employees such as yourself in no small measure contribute to the integrity of our commercial system by insisting that all participants play by the rules. And I think all Americans thank you for what you did.

Second, I want to explore a number of substantive issues which you raise in your August 15, 2001, memo to Mr. Lay that touched upon the efficacy of our financial accounting standards. As part of the full committee's Enron investigation, Chairman Tauzin has asked my subcommittee, which is Commerce, Trade, and Consumer Protection, to examine our accounting standards in light of the Enron collapse.

As a matter of fact, my subcommittee just concluded a hearing which examined the adequacy and responsiveness of existing accounting standards. I believe, as it seems you may have believed also when you wrote the memo to Mr. Lay, that there is ample evidence that Enron, at a minimum, confused, obfuscated its true financial health from the investing public by using or possibly misusing financial accounting standards.

I now think there is enough evidence to suggest that Enron did not use special purpose entities such as Raptor as Generally Accepted Accounting Principles would authorize it, but they used it to hide poor performing merchant investments, so that Enron would not have to show the declining values that existed on their income statement.

Moreover, it appears that Enron reported the transfer of assets to SPEs as a sale and recognize them as such in its income statement, while it held the third party investors in the SPE harmless against the risk associated with those assets by pledging its stock as collateral.

I believe this is what you alluded to in your memo when you wrote, and I am quoting, "If adequately explained, the investor would know that the entities described in our related party footnote"—and I assume you meant footnote number 16 of Enron's 2000 annual report—"are thinly capitalized, the equity holders have no skin in the game, and all of the value in the entities come from underlying values of the derivatives. Unfortunately, in this case, there is a big loss in Enron stock and NP."

So during the question and answer period, I hope we can further explore that. I, again, thank you very much for testifying.

Mr. GREENWOOD. The Chair thanks the gentleman, and would urge each of the members, if they could, to keep their opening remarks as brief as possible, so that we can move forward with the witness in view of the fact that we have votes and members will be leaving.

The Chair recognizes the gentleman, Mr. Stupak, for an opening statement.

Mr. STUPAK. Thank you, Mr. Chairman.

I want to thank you, Ms. Watkins, for coming here today. Many of my colleagues and I truly appreciate your brave actions in informing Mr. Lay about the shady accounting that was going on in Enron. It is a shame that he and others on the Board, and in leadership positions at Enron, did not see these problems much earlier. Even now, there is a denial and a lack of acceptability of responsibility by Enron officials in all of the hearings we have had thus far to date.

It is also a shame that even after you provided Mr. Lay with a road map of what was going on in Enron, as the Powers Report put it, they decided to hire inside counsel to do the investigation into the allegations. That counsel, Vinson & Elkins, was the very law firm that was responsible for providing advice on many of the questionable transactions.

It was no surprise that Vinson & Elkins, in summarizing their findings, stated that Ms. Watkins' concerns were thoroughly investigated but, quoting now, "found not to raise new or undisclosed information."

Mr. Chairman, we know that once a truly independent firm, one from outside the Enron family, was allowed to review the transactions, they came to a very different conclusion.

Ms. Watkins, you mentioned in your interview with committee staff that when you met with Mr. Lay to discuss your memo you felt like the child who tells the emperor that he has no clothes. So I went out and got the book "The Emperor's New Clothes." And while you are to be commended for coming forward in August of 2001, there was another emperor then, Jeffrey Skilling, who was running Enron prior to your August 15 letter. And I have a feeling he knew he had no clothes, and that is why—or that is what prompted his resignation.

I would like to take just a moment to read you, if I may, the final page of Hans Christian Andersen's story. I don't believe he is any relation to Arthur Andersen.

But the last page of the story goes like this. It says, "The emperor shivered for it seemed they were right. But what could he do? After all, he was the emperor, and people expected him to be dig-

nified. I must continue to end the procession, he thought. So the emperor stood up just as tall, and his servants went on carrying the train that wasn't there."

Mr. Chairman, reading this, I can't help but think of our last hearing last week with Mr. Skilling in his own parade, and his servants, Mr. Winokur and Mr. Jaedicke, following behind him carrying his non-existent robe.

I know we are all anxious to hear Ms. Watkins' testimony. So I am going to take your advice. I look forward to your answering the questions we will put to you today.

So, Mr. Chairman, with that, I will yield back my time.

Mr. GREENWOOD. The Chair thanks the gentleman, and thanks him for not showing the picture of the unclothed emperor.

The Chair recognizes the gentleman from North Carolina, Mr. Burr, for an opening statement.

Mr. BURR. I thank the Chairman.

Mr. Chairman, we have before us today a witness who I can—I believe can provide the most insight and helpful testimony we have yet to hear in piecing together this affair. With her background as a CPA and a former employee of Andersen, many have described Sherron Watkins as being unique in her ability to bring light on this charade.

I would add one more uniqueness about Ms. Watkins that was lacking in all of the other individuals who have chosen to come before this committee—to stop the bleeding at Enron, to moral compass. In her now famous August memo, she brought to light what she saw as accounting improprieties, most noticeably in the Raptor transactions.

Today she will share with us her observations and concerns that she raised with Enron executives, most notably Ken Lay, concerns that fell on deaf ears at the top of the company, while simultaneously this one-time Giant fell to its knees.

Mr. Chairman, I can detail, but others have done that. I think what best details the situation at Enron were the list of songs by the Texas native who just passed away, Waylon Jennings. One song might be "I Ain't Living Long Like This," "Wanted: The Outlaws," "Mamma Don't Let Your Babies Grow Up to be Cowboys," or just "Some Good Ole Boys."

And Andersen could best be described as "Are You Sure Hank Done it That Way?"

However, Waylon's ballad "A Good-Hearted Woman" could not better describe the witness we have before us today. In all seriousness, thank you, Sherron, for appearing before us. You are doing this committee and your fellow Enron employees a great service.

In the New Testament, when Peter stepped out of the boat and walked on water, the miracle wasn't the fact that he walked on water. No, the miracle was that he chose to put his faith in God and step out of the boat, a boat which was his protection but was bound to sink in troubled water.

Thank you for choosing to step out of the boat today.

I yield back.

[Additional statements submitted for the record follow:]

PREPARED STATEMENT OF HON. STEVE LARGENT, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OKLAHOMA

Thank you Chairman Greenwood. As many of you know, this is my last day in Congress and I want to again, very briefly, thank the Chairman and the other members of the committee for their hard work and friendship over the years. Serving with you has been a high honor and privilege.

When I ran for Congress in 1994 I believed, and still believe, that oversight was one of the most important functions of Congress. Much of the business of making sure our government is responsive and efficient happens in this committee. Over the years, this committee has dealt with many serious issues, but few have been more distressing, unexpected—and even shocking—than the scandal surrounding the collapse of Enron, the seventh largest corporation in the United States.

This committee has a duty to displaced Enron workers, and to the American people, to connect as many dots as possible so we can determine what happened in this collapse and take whatever steps are necessary to ensure that something like this does not happen again. In the course of these hearings, as we try to untangle what appears to be a web of deceit, we may determine that this drama is nothing more than a story of simple robbery. It does appear, at this point, that Enron's collapse was not brought about by anything other than those in the company who carefully constructed their own house of cards. Yet, I have full confidence that this committee will, in a careful and measured way, scour the laws that may have been circumvented or disobeyed and tighten them so this type of fiasco can be avoided in the future.

Again, I thank the Chairman and the other members for their friendship and dedication to serving the public on this committee. I look forward to hearing today's testimony and, in particular, I want to commend Mr. Sherron Watkins for her courage in coming forward with her statement.

PREPARED STATEMENT OF HON. W.J. "BILLY" TAUZIN, CHAIRMAN, COMMITTEE ON
ENERGY AND COMMERCE

Chairman Greenwood, your and the staff's diligence in conducting these hearings must be commended. Although we have much more hard work ahead of us, there should be no question that this Subcommittee's investigation into Enron's financial collapse has begun to reveal what happened here and is serving a great public service.

Let me also note that the Committee continues to move on other fronts to examine whether legislative remedies are in order.

Earlier this morning we began our Commerce, Trade, and Consumer Protection Subcommittee hearing, which is examining whether current financial accounting standards sufficiently protect investors. Yesterday, we held an Energy and Air Quality Subcommittee hearing that examined the impact of Enron's collapse on energy markets.

Yesterday's energy hearing revealed a fact that underscores a point I want to make about today's hearing. In the energy hearing, we learned that, for all its size and market power, Enron ultimately had little effect on energy markets when it dramatically failed; the marketplace quickly adjusted, supplies were not significantly disrupted, neither were energy prices. This was some good news amidst all the sad news.

Our O&I hearing, which today marks its third day of testimony focused on Enron, has revealed a deceptively simple lesson: that self-interested individuals—working in an ill-managed environment—were able to construct self-enriching schemes that effectively destroyed a company. This, in many respects, was an aberration, certainly not representative of how most companies and corporations operate in America, and certainly not representative of everybody who works in such companies.

This morning, we have before us Sherron Watkins, one of several senior Enron employees we have come across in our investigation who attempted to call attention to these questionable partnerships and sham dealings. This, too, is a good news story, because it shows that, even among the culture of greed and corruption that appears to have permeated so many within Enron's management, there were loyal, honest employees who attempted to stand up and put matters right. It seems, in the case of Enron, that there were not enough of these people in positions of influence. Clearly those at the top, or in senior management, did not stand up.

But I believe we should acknowledge that some senior employees did not try to hide matters; they did not shirk their duty to the company; they did not work to deceive the investing public. To the contrary, they stood up for their company, their

fellow employees, and the investing public, at great personal risk. They did the right thing, when it would have been so easy to close their eyes to it all.

Ms. Watkins, as Chairman Greenwood pointed out, was so concerned about what she saw in Enron's dealings with these related partnerships that she went to the person in charge of it all, Chairman and CEO Ken Lay, believing that would save the company.

Her communication did set off action and inquiry within the company, but these were not enough to correct matters—indeed some action aimed to hide matters further from public view. This morning I look forward to learning more about the people involved in these decisions. These are people who, we now understand, did not believe Ms. Watkins, or who minimized her complaints. I look forward to discussing some of this with her this morning.

In an interview with Committee investigators, Ms. Watkins has indicated that there are more widespread financial shenanigans that have yet to be reported. Also, it turns out she was more active in communicating concerns to the top than had previously been realized. I look forward to learning more about her late October conversations with Mr. Lay and other individuals—conversations on the eve of Enron's collapse.

Ms. Watkins, welcome. I appreciate your cooperation with this Committee and hope your testimony will help us get even closer to the truth.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes himself for 10 minutes for questions.

Ms. Watkins, when you and I—oh, I am sorry. I am sorry. It is a good thing we have staff here. Ms. Watkins, you are aware that this committee is holding an investigative hearing, and when holding an investigative hearing it is our practice to take testimony under oath. Do you have any objections to taking your testimony under—giving your testimony under oath today?

Ms. WATKINS. No, I don't.

Mr. GREENWOOD. Okay. The Chair then advises you that under the rules of this committee, and the rules of the House, you are entitled to be advised by counsel. Do you choose to be advised by counsel today?

Ms. WATKINS. Yes, I do.

Mr. GREENWOOD. And would you identify your counsel for me?

Ms. WATKINS. Mr. Philip Hilder.

Mr. GREENWOOD. Okay. Sir, would you spell your last name, please?

Mr. HILDER. Hilder, sir. H-I-L-D-E-R.

Mr. GREENWOOD. Thank you.

In that case, if you would please rise and raise your right hand, I will give you the oath.

[Witness sworn.]

Mr. GREENWOOD. You may be seated. You are under oath, and you are recognized for your opening remarks. You probably want to pull that microphone over to you, and it is fairly directional.

TESTIMONY OF SHERRON WATKINS, VICE PRESIDENT OF CORPORATE DEVELOPMENT, ENRON CORPORATION

Ms. WATKINS. Okay. Good morning, Mr. Chairman, members of the subcommittee. I am Sherron Watkins. And thank you for the opportunity to address the subcommittee this morning.

Mr. GREENWOOD. Pull it up a little closer and speak right into it. There you go.

Ms. WATKINS. I am currently employed at Enron Corporation as a Vice President. By way of background, I hold a master's degree in professional accounting from the University of Texas at Austin, and I have been a certified public accountant since 1983.

I began my career in 1982 at Arthur Andersen as an auditor. I spent 8 years at Andersen in both the Houston and New York offices. I joined New York-based MG Trade Finance in 1990 to manage their portfolio of commodity-backed finance assets. I held that position until October 1993.

In October 1993, I was hired by Mr. Andrew Fastow and moved back to Houston to manage Enron's newly formed partnership with CalPERS, the California Public Employee Retirement System. The partnership was the Joint Energy Development Investments Limited Partnership, or JEDI. I held the JEDI management portfolio position until the end of 1996.

From 1997 until early 2000, I worked for Enron International, primarily in the mergers and acquisitions group, which is also known as the corporate development group. In early 2000, I transferred to Enron Broadband Services. I worked there until June of 2001 in a variety of roles.

In mid to late June of 2001, I went to work directly for Mr. Fastow, assisting in the corporate development work that had been put under his supervision after Cliff Baxter resigned in May of 2001. I worked for Mr. Fastow in this new role until late August 2001. I have since been reassigned into the human resources group with a variety of assignments.

While working for Mr. Fastow in 2001, I was charged with reviewing all assets that Enron considered for sale and determining the likely economic impact of sale. As part of the sale analysis, I reviewed the estimated book values and market values of each asset.

A number of assets were hedged with an entity called Raptor. Any asset that was hedged should, for the most part, have a locked-in sales value for Enron, meaning that despite current market prices Enron should realize the hedged price with Raptor. It was my understanding that the Raptor special purpose entities were owned by LJM, the partnership run by Mr. Fastow.

In completing my work, certain Enron business units provided me with analyses that showed certain of the hedged losses that had been incurred by Raptor were actually coming back to Enron. The general explanation was that the Enron stock backstopping the Raptor hedge had declined in value such that Raptor would have a shortfall and would be unable to fully cover the hedge price that it owed to Enron.

I was highly alarmed by the information I was receiving. My understanding as an accountant is that a company could never use its own stock to generate a gain or avoid a loss on its income statement. I continued to ask questions and seek answers, primarily from former co-workers in the global finance group, or in the business units that had hedged assets with Raptor. I never heard reassuring explanations.

I was not comfortable confronting either Mr. Skilling or Mr. Fastow with my concerns. To do so I believed would have been a job terminating move.

On August 14, 2001, I was informed of Mr. Skilling's sudden resignation and felt compelled to inform Mr. Lay of the accounting problems that faced Enron. I sent Mr. Lay an anonymous letter on August 14, 2001, in response to a request for questions for an up-

coming all-employee meeting to be held August 16 to address Mr. Skilling's departure.

At the all-employee meeting, Mr. Lay commented that our visions and values had slipped, and that if any employee was truly troubled by anything at Enron, please bring those concerns to him or any number of the top management, including Cindy Olson, Steve Kean, and others.

On August 16, I met with Ms. Olson to show her a copy of the letter and discuss it with her. She encouraged me to meet with Mr. Lay personally. Since Mr. Lay was traveling through the rest of the week, she said the meeting would probably take place the week of August 20.

I was concerned that Mr. Lay was planning to fill the Office of the Chair over the weekend and that he might choose Mr. Fastow or Rick Causey, the Chief Accounting Officer. To voice my concerns, I met with Rex Rogers, Enron's Associate General Counsel, on Friday, August 17, 2001. I provided Mr. Rogers with a version of the anonymous letter as well as two additional memos, all of which are part of the seven pages that this committee discovered in mid January 2002.

On Monday, August 20, 2001, Mr. Lay's assistant scheduled a meeting for me to meet with Mr. Lay that following Wednesday, August 22, 2001. I subsequently held discussions with a former mentor at Andersen, James Hecker, and a long time friend and co-worker, Jeffrey McMahon, to vet my concerns before my meeting with Mr. Lay.

I met with Mr. Lay on the afternoon of Wednesday, August 22, 2001. The meeting lasted just over one half hour. I provided him with five memos I had drafted to help explain the problems facing the company. These five memos constitute the seven pages this committee discovered and subsequently disclosed on January 14, 2002. Additionally, I provided Mr. Lay an analysis of the Raptor entity economics and a presentation prepared by Enron's risk assessment and control group.

I primarily used the memo titled "Summary of Raptor Oddities" as talking points with Mr. Lay. My main point to Mr. Lay was that by this time Raptor owed Enron in excess of \$700 million under certain hedging agreements. My understanding was that the Raptor entities basically had no other business aside from these hedges. Therefore, they had collectively lost over \$700 million.

I urged Mr. Lay to find out who lost that money. If he discovered that this loss would be borne by Enron shareholders via an issuance of stock in the future, then I thought we had a very large problem on our hands. I gave Mr. Lay my opinion that it is never appropriate for a company to use its stock to effect its income statement.

At the conclusion of the meeting, Mr. Lay assured me that he would look into my concerns. I also requested a transfer as I was uncomfortable remaining as a direct report to Mr. Fastow.

I intend to fully cooperate with the subcommittee, and I now welcome the opportunity to answer any questions the members may have at this time.

Mr. GREENWOOD. Thank you very much for your testimony, Ms. Watkins. We all thank you again for being here.

The Chair recognizes himself for 10 minutes for inquiry.

Ms. Watkins, when we spoke yesterday you described that in your earlier days working for Mr. Fastow, the special purpose entities were basically legitimate. They seemed to be garden variety, securitized entities that were designed to serve legitimate financial purposes with which you had no qualms. And as you explained, Condor was one of those early SPEs that fit that category.

As you described your time with the company, it seemed to me that it was like the story of the frog in the pot on the stove. That gradually, largely directed by Mr. Fastow, the rules of the game began to change, and the legitimacy of these entities and partnerships began to be stretched until finally we end up with something like the Raptors, which seem to serve no legitimate, and perhaps not even a legal, purpose. It seemed to me that the difficulty was that the corporate culture was slowly acclimated to this transition from what was quite legitimate, to what was clearly not legitimate.

Let me ask you this specific question. Is it your opinion that the Raptor transactions were nothing more than sheer income statement manipulation? And if you do think that, why do you say so?

Ms. WATKINS. That is my opinion, and it is my opinion because true economic risk was not passed to a third party. Raptor owed Enron in excess of \$700 million, and there was not an outside third party that bore that loss. It was going to be borne by Enron's shareholders by an issuance of stock in the future.

Mr. GREENWOOD. Explain how that affected the income statements.

Ms. WATKINS. The Raptor hedges were locking in, supposedly, sales value that Enron had on equity investments that it had made. The investments that were probably the more volatile was the tech investment in Avici and the New Power Company, a start-up that Enron had done.

Those investments were hedged with Raptor. They had dropped significantly in value, and in the related party footnote in 2000 it mentions that Enron had recognized \$500 million of revenue from the special entities' offsetting of corresponding writedown in the equity investment portfolio of Enron.

I think that tended to make readers think that it was a \$500 million gain offset by a \$500 million loss. Therefore, zero impact on the income statement. However, without the Raptor transactions, Enron would have had a \$500 million loss not covered by any gains running through the 2000 income statement.

Mr. GREENWOOD. As you came to understand this, prior to your first meeting with Mr. Lay, did you discuss these concerns with other employees at Enron?

Ms. WATKINS. As I was doing my work and looking at these assets hedged by Raptor, my concern was that it seemed to be just common knowledge that the Raptor losses were backstopped by Enron stock. And an analysis was always looked at, what's the value of Enron stock compared to the money Raptor owes us? And I was shocked that people could explain this to me with no concern in their voice, like there was some magic structure that Enron and Andersen had come up with to make this work.

Mr. GREENWOOD. Did you get the impression, or was it said to you by others that they thought that this was perfectly legitimate, or that it was shaky, but everyone is going along with the deal?

Ms. WATKINS. There were people like Mr. McMahon and others that had expressed concerns about LJM and the transactions Enron was doing with LJM. But for the most part, people seemed to think there was some accounting rule that was allowing this to be acceptable. It was very common knowledge. It wasn't hidden.

Mr. GREENWOOD. Did you watch Mr. Skilling's testimony before this subcommittee last week?

Ms. WATKINS. Yes, I did.

Mr. GREENWOOD. Would you care to comment on how you reacted as you heard Mr. Skilling describe his awareness or lack of awareness or understanding of these transactions?

Ms. WATKINS. Well, I would like to use Mr. Skilling's own words to describe what I thought about his testimony. He was interviewed by Enron's in-house newsletter in 2001. In the interview, Mr. Skilling was asked, "What is the best advice you ever received?" And his reply was, "If it doesn't make any sense, don't believe it."

Mr. GREENWOOD. Did you confront Mr. Skilling himself with this concern?

Ms. WATKINS. No, sir, I did not.

Mr. GREENWOOD. And why did you not?

Ms. WATKINS. I did not want to do that without the safety net of a job in hand. I felt like it would be an immediate job terminating move. Frankly, I thought it would be fruitless, that nothing would happen.

Mr. GREENWOOD. Did you have other experiences, or the experiences of others that led you to believe you might be putting your job on the line if you were to confront Mr. Skilling, or Mr. Fastow for that matter, with these concerns?

Ms. WATKINS. Basically, it appeared that the Raptor transactions had been going on for a number of years. My understanding was that Mr. Skilling was fully aware of them. He is a very hands-on manager. I had also heard rumors that people as close to him as Mr. Baxter had complained to him, and he had done nothing. So I really felt it was fruitless to go to Mr. Skilling.

Mr. GREENWOOD. Do you think it is possible that Mr. Skilling was unaware of the nature of these transactions?

Ms. WATKINS. No, I do not.

Mr. GREENWOOD. Could you tell us why you think that is not possible? He seemed to have forgotten about them.

Ms. WATKINS. He is a very intense, hands-on manager. He was very involved in Mr. Fastow's endeavors, and I find it very hard to believe that he was not fully aware of transactions with Mr. Fastow's partnerships.

Mr. GREENWOOD. Now, did Mr. Fastow learn that you had communicated your concerns to Mr. Lay?

Ms. WATKINS. I did find out that he found out I was the writer of the anonymous letters, and that I had also met with Mr. Lay. I found that out August 30, 2001.

Mr. GREENWOOD. And how did he respond? Did he name you Employee of the Month?

Ms. WATKINS. Well, Ms. Olson told me that she and Ken Lay were both highly alarmed by Mr. Fastow's reaction. He wanted to have me fired. He wanted to seize my computer.

Mr. GREENWOOD. He wanted to have you fired? He told people he wanted to have you fired?

Ms. WATKINS. That is what Ms. Olson told me.

Mr. GREENWOOD. Okay. And he wanted your computer?

Ms. WATKINS. Yes.

Mr. GREENWOOD. And did he obtain your computer?

Ms. WATKINS. He did, but Ms. Olson basically said, "Let me send you to your office with an IT person. Here is a new laptop. Transfer whatever files you want on to the new one. Delete whatever ones you want to on the old one. We will just hand him the hardware." She said, "You don't mind doing that, do you?" And I said, "No, I don't."

Mr. GREENWOOD. So you pulled a fast one on Andy. Let us get to your face-to-face meeting with Mr. Lay. Could you describe for the committee how he reacted and what your impression of his reaction is, and particularly with regard to what extent it seemed to you, based on his comments, his reactions, that the news that you were bringing to him was surprising or not surprising, was alarming or not alarming, and to what extent it seemed to you that he had an appropriate response that would have convinced you, given you some comfort that he was, in fact, going to deal with this.

Ms. WATKINS. Well, he tried to put me at ease. He knew this was probably difficult for me to do, and he recognized that. I handed him my set of documents and directed him to the Summary of Raptor Oddities document as a talking point. He seemed to take it very seriously. In fact, when he read the quote that I put in that memo about the manager level employee saying we are such a crooked company, he winced. You know, that seemed a painful comment to him.

He was aware that these Raptor transactions had been presented to the Board, but I said my understanding of the way these things are generally presented, it is high level summaries, and I am not so certain that the true nature was fully disclosed. And he contended that I might be right, and by the end of the discussion, you know, he certainly said he would look into it and order an investigation, and asked me, you know, what could he do for me, which is when I requested the transfer out of Mr. Fastow's group.

Mr. GREENWOOD. Okay. My time has expired.

The Chair recognizes the gentleman, Mr. Dingell, for 10 minutes for purposes of inquiry.

Mr. DINGELL. Mr. Chairman, I thank you. Again, I commend you.

Ms. Watkins, I want to commend you also. I hope you understand these questions are friendly, but our time is limited, so I, therefore, have to ask them in a way that gives you an opportunity to answer, where possible, yes or no.

I will be working from a document which is entitled "Outlines of Points to Discuss with Ken Lay and Jim Derrick."

Ms. Watkins, you specifically asked that Vinson & Elkins not do this investigation. That was because they had approved many of the LJM deals as attorney for Enron, is that correct?

Ms. WATKINS. Yes, sir, it is.

Mr. DINGELL. Now, I want to refer you to the document that I have just mentioned. This is a document which was prepared by Vinson & Elkins on the result of their investigation, and Jim Derrick is Enron's General Counsel, is he not?

Ms. WATKINS. Yes, he is.

Mr. DINGELL. Ms. Watkins, and in this document it says that Jim Derrick decided not to engage an independent accountant as you had recommended. Is that correct?

Ms. WATKINS. Yes.

Mr. DINGELL. The caveat on the investigation was that they should not second-guess the accounting treatment. They would not do a detailed transaction analysis, and there would be no discovery-style investigation. Did you know that at this particular time or at some later time?

Ms. WATKINS. I was not aware that the investigation was being limited. I met with Vinson & Elkins on September 10 for roughly 3 hours and had no indication that it was a limited investigation. I only discovered that it was limited when I read their October 15 response, which was not provided to me. I read it off of this committee's web page.

Mr. DINGELL. It is fair to say that this, then, was not much of an investigation, was it?

Ms. WATKINS. I don't think so.

Mr. DINGELL. Vinson & Elkins said that with all of these caveats there is no problem, except a cosmetic one, is that correct?

Ms. WATKINS. That is what they concluded.

Mr. DINGELL. And on page 7, Vinson & Elkins tells Ken Lay that Enron stock is being used to support transactions with Condor and Raptor. Enron was getting earnings through transactions with Raptor when it could be argued that there was no third party involved. And because of the falling value of both Enron stock and asset value, the question was raised as to who bears the loss.

These are exactly the same questions you had asked earlier. Isn't that so?

Ms. WATKINS. Yes, sir.

Mr. DINGELL. Now, then, Vinson & Elkins says at page 8 of the document, "Notwithstanding these bad cosmetics, Enron representatives uniformly stated that Condor and Raptor vehicles were clever, useful vehicles that benefited Enron." What this says to me, that everyone—Vinson & Elkins, Ken Lay, Jim Derrick, and all of the people they interviewed—knew that these were not special purpose vehicles that bore risk. Is that correct?

Ms. WATKINS. It would appear to be so, yes.

Mr. DINGELL. And they knew that they were in bad financial shape, did they not?

Ms. WATKINS. Yes.

Mr. DINGELL. And they had approved them, had they not?

Ms. WATKINS. Yes.

Mr. DINGELL. So when high level officials say they didn't know about these vehicles, can that be true?

Ms. WATKINS. No, they knew about the vehicles.

Mr. DINGELL. Now, what do you think all of these people expected to happen at this point in September 2001?

Ms. WATKINS. I think what is interesting to note is that it says here, "The Raptor vehicles were clever, useful vehicles that benefited Enron." I think that there was an understanding that Andersen and Vinson & Elkins had blessed these things. When I met with Rex Rogers on August 17, he said, "Sherron, how could you possibly be right? Andersen and Vinson & Elkins would not risk their firms giving us wrong advice. They have blessed these structures." And so I think that certain people at Enron thought that these were complex but clever, and that they were legitimate.

Mr. DINGELL. Now, so here we have a situation where Vinson & Elkins does—I think they had to—some kind of due diligence, or gave legal advice to Enron on these matters. Is that not so?

Ms. WATKINS. Yes, sir.

Mr. DINGELL. The accountant was in the similar position, both as accountant and as consultant, is that not so?

Ms. WATKINS. Yes, that is right.

Mr. DINGELL. So am I fair in inferring from this that their statements about the character of these devices as being of benefit to Enron was in error?

Ms. WATKINS. Well, a benefit to Enron, if you consider that we were meeting financial statement targets that we had told investor analysts, but you can't meet those targets falsely.

Mr. DINGELL. So they were essentially representing them as being a benefit in the meeting of targets which could not be met.

Ms. WATKINS. Yes, sir.

Mr. DINGELL. Mr. Chairman, in the interest of time, I would like to just ask unanimous consent to introduce the document to which I have referred.

Again, Ms. Watkins, you are a woman of extraordinary courage. We thank you for your assistance.

Mr. GREENWOOD. Without objection, the document to which the gentleman from Michigan refers, and all of the other documents in the binder, will be made a part of the record.

The Chair recognizes the gentleman, Mr. Tauzin, for 10 minutes.

Chairman TAUZIN. Thank you, Mr. Chairman.

First, Ms. Watkins, I apologize that we scheduled this hearing on Valentine's Day. We want to wish you Happy Valentine's Day.

Ms. WATKINS. Thank you.

Chairman TAUZIN. I want to refer to the document which you handed Ken Lay on October 30. That document has been widely publicized in the last several days. Some have characterized it as an attempt to describe a public relations effort to help the company through this problem.

I want you to tell me whether the facts outlined in that document, to your best knowledge and belief, are true.

Ms. WATKINS. Yes, sir. I was providing this to Mr. Lay as a concept on public relations. However, I felt it was a truthful public relations strategy, and it was something I felt should be said.

Chairman TAUZIN. The things you recommended that Mr. Lay say and do are based upon facts in this document that you believe to be true.

Ms. WATKINS. Yes, I do believe that Mr. Skilling and Mr. Fastow, along with two very well respected firms, did dupe Ken Lay and the Board.

Chairman TAUZIN. You say that, "As CEO, Mr. Lay relied upon his COO, Mr. Skilling, as well as CFO Fastow and CAO Causey, to manage the details." Is that correct?

Ms. WATKINS. Yes.

Chairman TAUZIN. Is that accurate? Was Mr. Skilling expected to manage the details of these transactions?

Ms. WATKINS. From all the records and the presentations that I have reviewed, Mr. Skilling was supposed to be an integral part of the controls and the review process with the LJM transactions.

Chairman TAUZIN. Did you see Mr. Skilling's testimony last week before this committee?

Ms. WATKINS. Yes, sir, I did.

Chairman TAUZIN. Did you specifically hear his testimony regarding the LJM approval sheets?

Ms. WATKINS. Yes, I did.

Chairman TAUZIN. Now, he testified that he never saw these sheets and he was not required to sign them. That is why he didn't sign them. Is it your testimony that he, in fact, knew about these sheets?

Ms. WATKINS. Well, all I can speak to is that it was Enron's very strict policy, when completing transactions and deals, to have deal approval sheets, and there was never a name put on the approval block that was not required. And I don't ever remember an instance where signatures were not obtained for every person listed.

Chairman TAUZIN. So that if Mr. Skilling's name consistently appears on the sheets, but it remains unsigned, it was not because he was not obligated to sign it. It was because he just didn't sign it.

Ms. WATKINS. That is correct.

Chairman TAUZIN. Is that correct?

Ms. WATKINS. That would be my understanding of our very strict procedures, yes.

Chairman TAUZIN. Were those procedures that Mr. Skilling would have understood?

Ms. WATKINS. Yes.

Chairman TAUZIN. You say also in the memo that Mr. Lay should admit that he trusted the wrong people. Are you saying that Mr. Lay was wrong to trust Mr. Skilling and Mr. Fastow and Mr. Causey with these details?

Ms. WATKINS. Yes, sir. I do believe they misserved Mr. Lay, the Board, Enron, and its shareholders.

Chairman TAUZIN. In fact, you go on to say that Ken Lay and his Board were duped by a COO who wanted the targets met no matter what the consequences, a CFO motivated by personal greed, and two of the most respected firms—Arthur Andersen and Company and Vinson & Elkins—who had both grown too wealthy off Enron's yearly business and no longer performed their roles as Ken Lay, the Board, and just about everybody on the street would expect as a minimum standard for CPAs and attorneys. Do you believe that statement to be true?

Ms. WATKINS. Yes, sir, I do.

Chairman TAUZIN. You say further on the culprits are Skilling, Fastow, Glisan, Causey, as well as Arthur Andersen and Vinson & Elkins. Do you believe that statement to be true?

Ms. WATKINS. Yes, sir, I do.

Chairman TAUZIN. Now, in Mr. Skilling's testimony, he very specifically denied any knowledge that in these transactions Enron Corporation had not properly transferred the risk to cover the losses. Do you believe that statement to be true?

Ms. WATKINS. No, I do not. Mr. Skilling was a great proponent of looking to the markets to make sense of a transaction. And I doubt we could have hedged these volatile stocks with any true unrelated third party at the prices that we were actually able to obtain from Raptor.

Chairman TAUZIN. Is it your testimony, then, that Mr. Skilling must have known about the details of the Raptor transaction to know that risk had not transferred?

Ms. WATKINS. It is my opinion that he was probably aware that we could not have transacted at those prices with an unrelated third party, and the only reason Mr. Fastow was transacting with Enron through the Raptor transactions at those prices for volatile stocks was that Mr. Fastow could not lose money and he was backstopped by Enron stock.

Chairman TAUZIN. Now, Ms. Watkins, you made it as clear as I have ever seen anybody make it. You basically outlined for Mr. Lay what would happen if he did the right thing—he cleaned up this mess, reported correctly to his stockholders and investors, if he got rid of the culprits, and if he made these public statements on behalf of the corporation that he, in fact, was going to do everything to say his company.

And that if he didn't take that advice, you told him, "The worst is going to happen. It is going to happen anyhow. And Mr. Lay will be more implicated in this than is deserved." What did you mean by that?

Ms. WATKINS. Mr. Lay was back at the helm as CEO, and it is my humble opinion that he did not understand the gravity of the situation the company was in.

Chairman TAUZIN. Now, you explained to him, as the Chairman has outlined, in rather detailed form, what you thought was wrong with Raptors, what you thought was wrong with these transactions. Did he understand the gravity, the implications, of what you were telling him, in your opinion?

Ms. WATKINS. In my opinion, I don't think he did. And I have that opinion because at an October 23 all-employee meeting to discuss the writedowns that had occurred in the third quarter there were several questions about Raptor and about the LJM transactions.

And Mr. Lay likened the problem the company was now facing to a 1980's problem when the Peruvian government nationalized an oil company Enron had to a J-block problem Enron had in 1997. And I don't think an accounting manipulation problem is in any way related to a—

Chairman TAUZIN. You are saying he didn't get it.

Ms. WATKINS. No, I don't—

Chairman TAUZIN. He didn't get it. Now, as I understand your memo to him, you are basically telling him that these officials of his corporation were engaging in improper activities, were doing it in a way that he and his Board were being duped, kept in the dark.

Who had the power to protect those people from discovery from Mr. Lay and his Board? Who had the power to allow these activities to go forward, by all of these employees, including investing themselves in some of these outside partnerships and entities at great profit? Who had the power to let all of that happen and keep that information from the Board and Mr. Lay all that while?

Ms. WATKINS. My opinion would be that would be Mr. Skilling.

Chairman TAUZIN. And, finally, Ms. Watkins, I refer you to the document entitled "Lessons Learned," Tab 8. In that document there are three points—recognize the accounting hedge versus an economic hedge, corporation should consider hedging assets in Raptor to minimize credit capability/volatility, the new Raptor structure transferred risk in the form of stock dilution. Did you show this document to Mr. Lay?

Ms. WATKINS. Yes, I did.

Chairman TAUZIN. Now, it contains some handwriting. Whose handwriting is that?

Ms. WATKINS. That is my handwriting.

Chairman TAUZIN. The handwriting basically says to the final point, there it is. That is the smoking gun. You cannot do this. What did this mean?

Ms. WATKINS. Well, my concern was that this was a document Enron had produced. It was well known. What that bullet point is trying to say in plain English is that the new Raptor structure transferred income statement equity investment risk in the form of stock dilution. And you can never use your stock to affect the income statement.

Chairman TAUZIN. You just—

Ms. WATKINS. You can't do that.

Chairman TAUZIN. [continuing] can't do that legitimately, legally.

Ms. WATKINS. That is correct.

Chairman TAUZIN. Where did you get this document?

Ms. WATKINS. From the risk assessment and control group run by Mr. Richard Buy.

Chairman TAUZIN. And if I may, what was Mr. Lay's reaction to this document when you showed it to him?

Ms. WATKINS. He was concerned. He was concerned with everything I was telling him.

Chairman TAUZIN. There is another note you wrote on the second point. "The corporation isn't Raptor. How could corporation consider anything at Raptor?" What did you mean by that?

Ms. WATKINS. Well, the bullet point just says the corporation should consider hedging assets in Raptor to minimize, you know, some problems. And if Raptor is supposed to be Mr. Fastow's company, then it is Mr. Fastow's problem. Why should Enron Corporation—

Chairman TAUZIN. Not the corporation.

Ms. WATKINS. [continuing] consider anything there? Exactly.

Chairman TAUZIN. Even with this, you still say he didn't get it?

Ms. WATKINS. I don't think so.

Chairman TAUZIN. Thank you, ma'am.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Florida, Mr. Deutsch, for 10 minutes.

Mr. DEUTSCH. Thank you, Ms. Watkins. Someone reading through Enron's statements, would they have a perspective that those statements fairly represent the status of the company prior to the bankruptcy?

Ms. WATKINS. I don't think so. I think that related party footnote is wholly inadequate in describing the transactions with Mr. Fastow's partnerships.

Mr. DEUTSCH. Okay. So I think all of us would probably agree with what you just said. How was that able to happen? How were we able to get to the seventh largest company in America under what we consider general accounting principles that those statements are supposed to fairly represent what is going on in the company? And you and me and I think anyone who has looked at this would come to the same conclusion that they do not. How did that happen?

Ms. WATKINS. It is inconceivable, and I don't understand how it happened.

Mr. DEUTSCH. I mean, obviously, it happened. I mean, at some point in time someone had to have had discussions between people at Enron and their accountants, Arthur Andersen, and their attorneys, Vinson & Elkins. I mean, are you aware of discussions that would have allowed it to happen?

Ms. WATKINS. I can really just point to what Mr. Stupak said in the emperor's new clothes. There were swindlers in the emperor's new clothes discussing the fine material that they were weaving. And I think Mr. Skilling and Mr. Fastow are highly intimidating, very smart individuals, and I think they intimidated a number of people into accepting some structures that were not truly acceptable.

Mr. DEUTSCH. This is somewhat of a side light, but I think something significant. At the time that you were obviously aware of what was going on, I mean, that the statements of the company did not reflect, in fact, huge losses in the billions of dollars, so what the value of Enron was—as reflected in its stock price was not its true value. And there were people, obviously, in Enron that knew about this.

And, apparently, what we know—and I am trying to get a copy at this point, but it is a public domain at this point—that effectively dozens of management people were selling hundreds of millions of dollars worth of stock at this period of time.

So, obviously, people knew what was going on, because my recollection is that there was only one actual purchase with, you know, dozens of sales. Was that the sort of culture of what was going on in terms of the inside management at this point in time? Understanding, in fact, what you uncovered and what we know now, that the value was not—that the liability of these Raptors was not reflected in the statements.

Ms. WATKINS. It is hard for me to say about executives who sold stock, because so many of them thought that somehow or other this was legitimate. I am—

Mr. DEUTSCH. Legitimate, but they also knew that there was an actual loss out there, and legitimate also that it seems as if everyone understood that the partnership could never make good on that loss. So there was—so people who actually understood the partner-

ships understood that eventually that loss was going to come back to Enron.

I mean, it might have been legal, but as a practical matter, in terms of the value of the company, I can't imagine how they wouldn't know that that—there was going to be a day of reckoning at some point in time.

Ms. WATKINS. You could be right. I can't really speculate. Enron is a very arrogant place, with a feeling of invincibility. And I am not certain people felt like it was that imminent. They just felt like Mr. Fastow, along with the accountants, would come up with some magic in the future.

Mr. DEUTSCH. Was there any thought at all—I mean, because, again, I guess what I am hearing you say and when I look at it at this point, is that anyone—and I don't think you had to be a Harvard MBA at this point or an Arthur Andersen partner to understand that there were liabilities that were not reflected in the balance sheet of the company, huge liabilities, in the billions of dollars.

And if you knew that and the market and the transparency in the public markets, you knew the stock was going to go down at some point. Was there any concern at all for shareholders for employees that 100 percent of their life savings in 401Ks to retired people throughout the country who had investments in Enron stock who really have been devastated by this collapse of Enron? And was there any thought, any discussion, what this would mean to actual shareholders?

Ms. WATKINS. I never heard any discussions.

Mr. DEUTSCH. Did you have any sense at all that there was any concern for shareholders at all?

Ms. WATKINS. I don't recall any discussions of concerns like that.

Mr. DEUTSCH. You have testified, and, you know, you have used the word I guess "improper." I feel comfortable using the word "illegal," because—and, you know, I guess sometimes I debate whether to go into, you know, what level of detail in terms of these transactions. But I think we have to go into some detail really to understand them and also for—just to have it on the record in this sense.

The hedging, okay, Avici—all right. That would have been a normal business decision. What was the original investment of Avici? Do you know the detail?

Ms. WATKINS. I don't have exactly what was originally—

Mr. DEUTSCH. Do you have a ballpark number?

Ms. WATKINS. I really don't. I think it was under \$10 million.

Mr. DEUTSCH. Okay. And what was it—what was the price when the hedge was put into effect, the value, the—

Ms. WATKINS. I believe around \$166 or \$170 a share.

Mr. DEUTSCH. So the value was \$166 million at that point? Or more?

Ms. WATKINS. Enron's value was probably in excess of \$150 million by then.

Mr. DEUTSCH. Okay. So the idea was to hedge that increase. And what you have said and what you have testified to is, first of all, could they have gone to a legitimate third party, an investment bank, to buy—a derivative to buy a put for that—for the strike price? I mean, was that available?

Ms. WATKINS. I believe we had some hold restrictions on the stock, but probably there were some transactions, derivative transactions, that were available to us from unrelated parties.

Mr. DEUTSCH. Okay. And, again, just to kind of walk through this specific transaction, so in a ballpark number, what would an unrelated third party ask for to sell that type of put to lock in that gain? Just a ballpark number.

Ms. WATKINS. Well, I don't think you could have locked it in at that \$170 price.

Mr. DEUTSCH. Right.

Ms. WATKINS. There would have been a significant haircut to that price.

Mr. DEUTSCH. Right. Can you use real numbers?

Ms. WATKINS. As much as, I would say, 30 or 40 percent.

Mr. DEUTSCH. Okay. And that strike price would be at what number?

Ms. WATKINS. Probably more like \$120 or \$110, maybe even lower. I am—

Mr. DEUTSCH. Okay. And then, what was the price that was sold by the partnership, by the Raptor?

Ms. WATKINS. I don't believe that we have sold it. I believe Avici is selling for somewhere—

Mr. DEUTSCH. No, no. The put. The—

Ms. WATKINS. Oh, I think \$170 a share.

Mr. DEUTSCH. No, no. But what was the—what did it cost Enron to buy it from this partnership?

Ms. WATKINS. I am not familiar exactly what those details.

Mr. DEUTSCH. Ballpark about?

Ms. WATKINS. Well, I don't know exactly how the Raptor puts or fees were paid. I do know that approximately \$35 million went to Mr. Fastow or went to LJM out of the Raptors, and that that was supposedly representing fees. But that was for all of the hedges.

Mr. DEUTSCH. Right. And I guess this is where, you know, I think that, you know, we have crossed the line of illegal activity, because what I hear you saying is that that transaction that you just described, which was one of many transactions, and basically there was this sort of cookie cutter of locking this in, and what appears to have happened is Arthur Andersen and Vinson & Elkins basically gave approval for this cookie cutter in terms of basically locking in value. You lock in the gain on the balance sheet as a gain. Then you basically have this sham transaction, and that's the whole point.

What you seem to be absolutely, I think, convinced of, and what I am as well, is that if a third party would have sold it at a market price, and this sort of partnership which was headed by the CFO of the company, Mr. Fastow, as, you know, head of the general partnership, as the general partner, basically selling it to yourself. And it is at a different price than a third party price.

By definition, you know, it is not an arms length transaction. I mean, by definition. If the price is so significantly different, that is No. 1. And, No. 2, what is absolutely clear—and I think, you know, just trying to elaborate on this a little bit, getting into some of the details—that there really—the transaction never really existed, because as opposed to guaranteeing the gain this general

partnership—no one in this transaction ever—I mean, ever contemplated that the general partnership could ever guarantee the gain.

I mean, it could only guarantee the gain if the stock went up and Enron's stock went up. Is that accurate?

Ms. WATKINS. Yes, it is. The saying around Enron was that heads Mr. Fastow wins, tails Enron loses.

Mr. DEUTSCH. And that obviously is not a transaction.

Ms. WATKINS. No.

Mr. DEUTSCH. That is not a business transaction. I mean, that is not a transaction that—I mean, could you contemplate in any shape, manner, or form that there was a business purpose?

Ms. WATKINS. No. Other than making sure those losses were not borne by Enron's financial statements, which is not economic.

Mr. GREENWOOD. The time of the gentleman has expired.

The Chair would note the presence of the gentleman from Oklahoma, Mr. Largent, and would also note that this is his last day as a member of the U.S. House of Representatives. He has long been a valued, respected, and I would say admired member of this committee. We have valued his contribution. I understand that the gentleman does not have time to inquire, or he does?

Mr. LARGENT. Mr. Chairman, all I wanted to do is ask unanimous consent to submit my opening statement for the record.

Mr. GREENWOOD. Without objection, the gentleman's opening statement will be part of the record, and the Chair and the committee wishes him well in his future endeavors and recognizes the gentleman from North Carolina, Mr. Burr, for 10 minutes to inquire.

Mr. BURR. I thank the Chair. We will miss Steve Largent.

Sherron, once you started to look for the problems, how long did it take you to identify the degree of problems that existed in some of these transactions?

Ms. WATKINS. Actually, not very long. I did know from the footnote that Enron had recognized \$500 million of revenue in 2000 from the Raptor hedging transactions. \$500 million is a significant number when you look at our net income for 2000. As soon as I discovered that the losses at Raptor were backstopped by Enron, and that is the way the structure worked, I knew we had a very large problem.

Mr. BURR. Could anybody charged with a review of what took place in these partnerships have missed it?

Ms. WATKINS. I don't think so, and I was highly alarmed that this had occurred and been allowed to go on for so long.

Mr. BURR. Did you feel like the letter that you had sent to Mr. Lay really did lay out a blueprint of what people should look at if they were outside concerns looking in at these transactions?

Ms. WATKINS. Yes, I did.

Mr. BURR. Let me go to the Vinson & Elkins—I think this was a preliminary outline that they used that Mr. Dingell just put in the record. It was used to discuss—to be a discussion draft with Mr. Lay and Mr. Derrick. And, specifically, I want to go to item D, caveats, first one. And in that it says, "No second-guessing of accounting treatment by AA." Interpret that for me if you will.

Ms. WATKINS. That they did not want Vinson & Elkins to make any—or give any opinions regarding whether the accounting treatment was proper, just assume that it was.

Mr. BURR. Let me move to your meeting with Mr. Lay I think on August 22. You said you spent almost an hour. He seemed surprised by a lot of the things. But he made some commitments to you to look into it, didn't he?

Ms. WATKINS. Yes, he did.

Mr. BURR. Having left that meeting, was there ever an exception that Mr. Lay made relative to these accounting discrepancies that you raised, that he wasn't going to look at those but he might look at something else?

Ms. WATKINS. No. I understood that he was going to try to get to the bottom of my concerns.

Mr. BURR. Is there any way that what you shared with him could have been heard in a way that you could do an independent review of these transactions, leaving out second-guessing accounting treatment and believe that you could fully understand what you had raised with him?

Ms. WATKINS. No. The point is the accounting treatment. The point is the accounting disclosures in the footnotes to the financial statements.

Mr. BURR. When you left that meeting with Ken Lay, did it ever cross your mind that they would turn to somebody who already had a relationship with Enron, be it Vinson & Elkins or Andersen, to actually do the review of their own work?

Ms. WATKINS. I didn't think they would choose V&E. I was slightly—well, more than slightly disappointed to find out that they subsequently did choose Vinson & Elkins to conduct the investigation.

Mr. BURR. Did Mr. Lay stress with you that he would have a review done that was independent or that was thorough?

Ms. WATKINS. He stressed that he would get to the bottom of it. He would look into my concerns. He didn't really go into detail as to what he was going to do to do that.

Mr. BURR. Well, I think that this discussion outline for the meeting really lays out the no second-guessing of accounting treatment by Arthur Andersen, no detailed transaction analysis. And it seems that V&E was given very specific instructions, "We need you to produce a report. We need you to stamp it okay. But don't raise any questions about any of these things that have been brought to our attention." Is that pretty much what he did?

Ms. WATKINS. Well, it appears from this V&E document that they had a very limited scope.

Mr. BURR. Sherron, prior to the release of V&E's final report, they briefed you orally, I think on 10/16. Is that correct?

Ms. WATKINS. I think they had issued their report. I had not seen it. I didn't see it until this year. They briefed me after the earnings release that morning.

Mr. BURR. And was that the first time that you knew that Vinson & Elkins had turned to Arthur Andersen to play a part in their review of the accounting discrepancies that you had raised that they had already signed off on?

Ms. WATKINS. Yes, that is—it was roughly a 2-hour meeting where Joe Dilg and Max Hendrick went through how they had conducted their investigation. The reason they said that they chose to have Arthur Andersen relook at their own work was in the interest of time, that the company wanted a speedy response, and no other accounting firm could get up to speed on these transactions very quickly.

But they also told me other things that—where they had limited their investigation despite suggestions that I had given them on September 10 when we had initially met for 3 hours at the beginning of the investigation.

Mr. BURR. What was your reaction to that?

Ms. WATKINS. I was highly alarmed. I did not think it was good advice for Mr. Lay. They told me that, you know, the conclusion was the accounting was appropriate when done. The cosmetics were bad, but it was appropriate. And I felt like that was—especially since I knew that we had unwound these transactions and written off \$1.2 billion in shareholder equity that very morning, we happened to close that day at \$33 a share, about the same price we had opened with that morning. But my concern was that wasn't going to stick.

I gave it less than a 5-percent probability that this was going to go quietly, and I was highly concerned that not only had the Titanic hit the iceberg, but we were already tilting.

Mr. BURR. Is it safe to say you didn't feel like the commitment that Mr. Lay had made to you to get to the bottom of it had successfully been accomplished?

Ms. WATKINS. Yes, that is correct. I did not feel that.

Mr. BURR. Sherron, one last question if I can, and it really deals with Enron management and their interaction between themselves and their audit firm. Are you aware at any point in that relationship, as these partnerships were created or as they fell, where Enron management in any way, shape, or form used anything persuasive to encourage Andersen to turn their head or shut their eyes at the structure or the outcome of these partnerships?

Ms. WATKINS. I don't think it was a turn the head kind of deal. Mr. Rogers, when I met with him August 17, he did say, "Well, you know, we push our internal accountants quite hard." He mentioned we probably push our outside auditors pretty hard. So he seemed to indicate that there was probably a lot of pressure that Enron put on Andersen to accept the structures that Enron was developing around the Raptor vehicles.

Mr. BURR. And given the timing of the V&E briefing with you, which was 10/16, which was close to that financial reporting period, can you share with me what V&E said about the 10/16 earnings release?

Ms. WATKINS. About the earnings release itself?

Mr. BURR. About that current earnings release, what they said on 10/16. Did they address the earnings release?

Ms. WATKINS. Well—

Mr. BURR. I think it was a press statement that went out, and I think there was the announcement of the \$577 million—

Ms. WATKINS. We had a press release that we had unwound some of the LJM transactions and taken these writeoffs and reduc-

tions of shareholders equity in the third quarter. It was my opinion that we should restate, and Mr. Dilg responded, "Do you really think Mr. Lay should ignore the advice of his counsel in this matter?"

Mr. BURR. Given that you are going through a release from Enron with a \$577 million adjustment, and a writedown of \$1.2 billion in shareholder equity, how is that consistent with the report that V&E's briefing you on that there is no problems?

Ms. WATKINS. Well, it was very surprising to me. I said, "Well, if you told Mr. Lay that the accounting was appropriate, why did we unwind these deals? Why take \$1.2 billion writedown to equity if these deals are okay?" And their reply to me was that, "Well, that was a business decision. I believe Mr. Lay felt like that these transactions were a distraction from core business, and he just decided to unwind them."

Mr. BURR. Sherron, thank you very much. I yield back.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Michigan, Mr. Stupak, for 10 minutes.

Mr. STUPAK. Thank you, Mr. Chairman.

Ms. Watkins, thanks again for coming. Let me pick up a little bit where Mr. Burr just left off. In the financial statement, there was pressure there to approve these special SPEs and these transactions. And you said—the question about Enron putting pressure and you said, "Well, I am sure there is pressure on the internal auditors and external auditors."

But before a financial statement goes public, doesn't Arthur Andersen have at least a fiduciary responsibility to say, "This ain't right. It is not going in a financial statement before it is put out to the public?"

Ms. WATKINS. My understanding as a former accountant is that it is an odd situation. The accounting industry is paid by companies requesting their services, but an accounting firm is supposed to keep their eye on who is relying on their opinions. Outside investors are relying on their opinions. That is who they are there to protect, and they make an opinion that these financial statements, including the footnotes, fairly represent the financial condition of the company.

Mr. STUPAK. And if these transactions are questionable, that may not fairly accurately represent the financial condition of the company. And they really have the ultimate responsibility before it is released to the public to say yes or no to putting this in. Is that a fair statement?

Ms. WATKINS. Yes, that is correct.

Mr. STUPAK. How about Vinson & Elkins, would they have the same kind of responsibility on the financial statements?

Ms. WATKINS. I don't think law firms necessarily have the same responsibility.

Mr. STUPAK. Okay. Let me take you back a few years. Eight years ago—you said for 8 years you worked with Arthur Andersen. While there are Arthur Andersen, did you have any document retention policy back then?

Ms. WATKINS. I am sure we did.

Mr. STUPAK. Okay. Then let me ask the question this way. While at Arthur Andersen, how often did you see a memo or correspond-

ence from the higher-ups saying, “Just want to remind you all of our retention policy, i.e. destruction policy?”

Ms. WATKINS. I don’t recall a lot of information about that. That was, of course, 14 or so years ago.

Mr. STUPAK. Sure.

Ms. WATKINS. And I am sure the policies have changed.

Mr. STUPAK. Well, during your 8 years, did you ever remember receiving or seeing one of these memos saying, “Just want to remind you of our retention policy”?

Ms. WATKINS. I don’t recall necessarily—

Mr. STUPAK. Okay.

Ms. WATKINS. [continuing] any specific memo on that.

Mr. STUPAK. In your 8 years at Arthur Andersen, or while you were based in Houston, did you work on the Enron account then?

Ms. WATKINS. No, I did not work on the Enron account.

Mr. STUPAK. Okay. You took Cliff Baxter’s position as Vice President under Mr. Fastow, correct?

Ms. WATKINS. Well, no. When Mr. Baxter resigned, the whole corporate development function was assigned and put under Mr. Fastow. So I went to work directly for Mr. Fastow helping him in that corporate development area.

Mr. STUPAK. Did you work under Mr. Baxter before then?

Ms. WATKINS. Indirectly, yes, I did.

Mr. STUPAK. Do you know why he retired?

Ms. WATKINS. It was to spend more time with his family.

Mr. STUPAK. Okay. He wasn’t forced out of the company or anything like that?

Ms. WATKINS. Oh, no. No.

Mr. STUPAK. Okay. Is it fair to say that these questionable transactions, the LJM and Raptor, would they possibly be discovered by the next Vice President who went in there?

Ms. WATKINS. I think they were very easy to discover.

Mr. STUPAK. Okay.

Ms. WATKINS. The facts weren’t really hidden.

Mr. STUPAK. Okay. In response to a question from Mr. Dingell, if I heard you correctly, you said Cliff Baxter complained to Mr. Skilling. What did he complain to Mr. Skilling about?

Ms. WATKINS. My understanding is that Mr. Baxter complained that it was inappropriate for a company of our size, of our stature, to do transactions with the CFO’s partnership. It was inappropriate. It didn’t look good. We shouldn’t be doing transactions with the CFO’s partnership.

Mr. STUPAK. And the CFO at this time was Mr. Fastow.

Ms. WATKINS. Mr. Fastow.

Mr. STUPAK. Okay. In your opinion, why did Mr. Skilling then leave Enron on August 14, 2001?

Ms. WATKINS. It is my opinion that he could foresee these problems, and he wanted to get as far away from it as possible.

Mr. STUPAK. Okay. Again, some questions from Mr. Dingell. You indicated when asked about Raptor and LJM, the hedging, it was common knowledge how they were doing this. And that it really wouldn’t stand up, because they weren’t—their assets weren’t there. Common knowledge by whom?

Ms. WATKINS. The different business units that were hedging their assets with Raptor, as well as the global finance staff under Mr. Fastow.

Mr. STUPAK. Okay. Mr. Dingell actually read a little bit from this one document which he placed in the record. I believe it is on page 8. And it said, "Notwithstanding these bad cosmetics, Enron representatives uniformly stated that the Condor and Raptor vehicles were clever, useful vehicles that benefited Enron." So my question—if they are pledged 100 percent with Enron stock, and then they couldn't meet the hedges as the stock started to fall, therefore, they didn't benefit Enron, the employees, or the shareholders of Enron, did they?

Ms. WATKINS. No, they did not.

Mr. STUPAK. I mean, clever but not legal and not benefiting Enron.

Ms. WATKINS. Yes, that is correct.

Mr. STUPAK. Who did they benefit?

Ms. WATKINS. You could possibly say that they benefited Enron, because it allowed Enron to meet projected financial targets, which kept Enron's stock price inflated.

Mr. STUPAK. Okay. So, then, that benefit then would go to Enron, but that benefit was then taken out of Enron, was it not?

Ms. WATKINS. The problem I have with it is it keeps the stock price inflated. And you had Mr. Skilling saying our stock price was going to go to \$120 per share. So you have people buying that inflated stock price, thinking the stock price is going to go higher. Those are now new shareholders of Enron that certainly are not benefited by these transactions.

Mr. STUPAK. Okay. Let me ask you this question, and by no means do I mean anything negative by it. But we have had testimony throughout about how certain employees benefited handsomely financially from some of these transactions and being part of these SPEs. Were you ever offered an opportunity to join in one of these, or to be part of one?

Ms. WATKINS. No, I was not.

Mr. STUPAK. So it is fair to say, then, you didn't invest in any of these SPEs like some did, like what, put \$5,800 in and they end up coming back with a million within 2 months or 3 months?

Ms. WATKINS. No, I did not.

Mr. STUPAK. Okay. You indicated—well, let me go to this question. In number 8 here, it was in our book here, number 8, was the Raptor hedging strategy analysis risk and assessment control? And the Chairman asked you some questions about it. In fact, on one page, lessons learned, the new Raptor structure transferred risk in one—in the form of stock dilution. It is in your handwriting. There it is. That is the smoking gun. You cannot do this. And that is your handwriting.

Ms. WATKINS. Yes, it is.

Mr. STUPAK. Okay. Who produced this document?

Ms. WATKINS. Mr. Rick Buy's risk assessment and control group.

Mr. STUPAK. Okay. Do you know when he would have produced it?

Ms. WATKINS. I believe that this was produced during the first quarter of 2001 to address the fact that the Raptor structures were under water.

Mr. STUPAK. Okay. So risk assessment or Mr. Buy produced this in the first quarter of 2001. Who would this be distributed to?

Ms. WATKINS. I am not completely certain of that. I believe it might have gone as high as the Finance Committee of the Board, but from reading the Powers Report, they do not appear to have seen this analysis.

Mr. STUPAK. Okay. This was an internal document.

Ms. WATKINS. It certainly went to Mr. Fastow, and I would imagine that it also went to Mr. Skilling.

Mr. STUPAK. How about Vinson & Elkins? Would they probably receive this?

Ms. WATKINS. Probably not.

Mr. STUPAK. Arthur Andersen?

Ms. WATKINS. Probably not.

Mr. STUPAK. Okay. But you thought probably the Board of Directors may have received this?

Ms. WATKINS. I thought so at the time when I was meeting with Mr. Lay. But from reading the Powers Report, it appears that they did not see this.

Mr. STUPAK. So when you put in here your comments, or even the new Raptor structure transferred risk in the form of stock dilution, not knowing anything about this, before I get—before all of this whole Enron thing, even I can pick it up now. Anyone who received this in the company should have realized there were serious, serious problems, and any accountant worth their weight in salt would certainly pick this up. Would they not?

Ms. WATKINS. It would certainly seem so. But it was so well understood and so prevalent. That is why I called Mr. Hecker at Andersen. I was about to meet with Mr. Lay, and I thought—well, I called him—but since I had not been in accounting for over 10 years—to say, you know, could this ever be okay? And he said it didn't sound right, and his words to me were, "Sherron, any accounting treatment must be clearly defensible if fully exposed. So if this is not clearly defensible when fully exposed, you are probably correct and you should go see Mr. Lay."

Mr. GREENWOOD. The time of the gentleman has expired. The Chair thanks the gentleman.

The Chair recognize the gentleman from Florida, Mr. Stearns, for 10 minutes for inquiry.

Mr. STEARNS. Thank you, Mr. Chairman. And, again, let me commend you and also the staff for the prodigious amount of work they have done here.

Just to get on the record that—it is more applicable to the committee that I chair dealing with FASB—I just wanted to ask you some questions. There is ample evidence, as I noted, that Enron at a minimum used/abused financial accounting standards to confuse its true financial condition. In your view, is Enron indicative of a failure to implement GAAP, Generally Accepted Accounting Principles? Or failure of the Generally Accepted Accounting Principles—in other words, failure of the GAAP itself or the failure to implement these principles?

Ms. WATKINS. I think Enron had a failure to implement them, correct.

Mr. STEARNS. So you don't think there is anything generally wrong with GAAP itself? Do you think GAAP works?

Ms. WATKINS. It should work. In my opinion, I think somehow in this country our financial accounting system has morphed into the Tax Code. In tax accounting if you follow the codes, whatever result you get, you are justified in using that treatment.

And financial accounting—a number of my accounting friends have said, “If you follow the rules, even if you get squirrely results, you have a leg to stand on.” And I am surprised that the financial accounting system has morphed into that, because you should still fairly represent your financial condition.

Mr. STEARNS. This is, to me, a very important point. You know, what you are saying is that Enron's problem was a flawed corporate strategy and simple old-fashioned bad assets, and that the accounting problems did not precipitate its collapse. Is that what you are saying?

Ms. WATKINS. No, I do think the accounting problems precipitated the collapse, because when the investing community was uncertain about our numbers, when they were driving the stock price down, almost everyone was aware that if the stock price dropped too low, if our investment grade rating fell away, there would be additional debt coming due. And we did have an old-fashioned run on the bank.

Mr. STEARNS. Okay. So, but you are saying that the GAAP worked, and it was—GAAP was not the problem. The accountants—it was more the business strategy and how they used the accounting principles, how they implemented it.

Ms. WATKINS. They did not implement them correctly.

Mr. STEARNS. Okay. So if you went to the American Institute of Accountants and talked to them, you wouldn't recommend that they change anything with Raptor partnerships or LJM1 or 2 or anything? You would say that is not the problem.

Ms. WATKINS. The accounting of these transactions I think was inappropriate. We should not have been able to—

Mr. STEARNS. But that was because of the people—that was Fastow and his people.

Ms. WATKINS. Yes.

Mr. STEARNS. But it wasn't Arthur Andersen.

Ms. WATKINS. Well, Andersen also signed off on the way we were implementing these accounting—

Mr. STEARNS. But if Arthur Andersen was told something, and it was not the truth, they might accept it. Is it possible that Arthur Andersen has some culpability here because they signed off on it?

Ms. WATKINS. Well, I think so, because they are charged with auditing the results. And a sensitive related party transaction should get a lot of scrutiny and—

Mr. STEARNS. So Arthur Andersen, in your opinion, signed off on something they shouldn't have.

Ms. WATKINS. Yes.

Mr. STEARNS. Do you think they knew what they were signing off on?

Ms. WATKINS. They sure should have known what they were signing off on.

Mr. STEARNS. Okay. Okay. So, you know, you have been an accountant, you told me in your opening statement, for 19 years. And yet you are the only one here out of this huge organization we have here. And, you know, we have talked to Jeffrey McMahon, who is President and Chief Operating Officer. He said he went to Skilling. We talked to Jordan Mintz, who is Vice President and General Counsel of Corporate Development. He tried to get Skilling to sign documents.

Both Richard Buy, the Chief Risk Officer, and Richard Causey, the Chief Accounting Officer, all somehow were aware of this, and yet you are the only one standing here. And so when you went to Mr. Lay, and he came back and said he was going to—V&E was going to do an analysis, I think it was on October 31. Did he say anything to you about maybe firing Vinson & Elkins?

Ms. WATKINS. Well, I met with Mr. Lay on October 30 and 31, and I was concerned that we needed to restate, come clean, and——

Mr. STEARNS. Because this is a key point. The report came back and everybody is ready to act on it and clean house and get this thing straightened out, right?

Ms. WATKINS. Yes.

Mr. STEARNS. Isn't that your impression?

Ms. WATKINS. Well, he had said at the time, "Well, we have fired Vinson & Elkins and Arthur," which I was a little bit surprised. When I met with him the following day, he corrected that and said, no, that we had formed the Special Committee and hired a new law firm and a new accounting firm to look into my concerns.

Mr. STEARNS. What was the new law firm's name that he said he was going to hire after he replaced Vinson & Elkins?

Ms. WATKINS. He first said it was Milner and something, which sort of surprised me because when the announcement came out it was Wilmer, Cutler. And that is an easy name to remember, and it gave me the impression that Mr. Lay was not making these decisions, someone else was. And they were just informing him of the decisions.

Mr. STEARNS. So he told you earlier, though, that he was going to fire Arthur Andersen and V&E, right?

Ms. WATKINS. Yes. And I think he misunderstood, though, the——

Mr. STEARNS. And who was telling him that, do you think?

Ms. WATKINS. I don't know. I am not privy to the inner workings.

Mr. STEARNS. I talked to Mr. Skilling, and I talked to him briefly about Cliff Baxter. And I just want to ask you a question on this. In your memo, you said, "He complained mightily to Mr. Skilling, and all who would listen, about the inappropriateness of the transaction with LJM." Did Mr. Baxter discuss his concerns about these transactions with you?

Ms. WATKINS. Actually, the last time I spoke with Mr. Baxter was January 15 of this year. I phoned him to give him the heads up that my memo had been discovered and was in the press, and that it mentioned that executives had warned Mr. Skilling. So I

told Mr. Baxter that I had mentioned him specifically, and I read to him over the phone exactly what I had written about him.

And he said, "Well, Sherron, you are right. You know, I was very concerned about these transactions." He said, "But I tell you what. If I had known there was anything illegal about it, I would have pushed it further."

Mr. STEARNS. Did Mr. Baxter tell you that he talked to Skilling frequently about this? I mean, you say mightily. Did he actually say, "I talked to him 10 times, 3 times, 1 time?"

Ms. WATKINS. I mean, he told me he spoke to him quite often about the inappropriateness of a company—

Mr. STEARNS. Okay.

Ms. WATKINS. [continuing] of our stature—

Mr. STEARNS. Did Mr. Baxter ever tell Ken Lay—did Baxter ever say to you, "I also mentioned it to Kenneth Lay, because I was frustrated with Mr. Skilling?"

Ms. WATKINS. No. The way the culture worked, I don't think anyone would have gone around Mr. Skilling to talk to Mr. Lay.

Mr. STEARNS. Okay. What about Jeff McMahon? Did you actually ever talk to him about any of these problems?

Ms. WATKINS. I did meet with Mr.—

Mr. STEARNS. Were you aware that Mr. McMahon—he was—he met with Skilling. He was the President and Chief Operating Officer, former Treasurer of the company. He recently became President. He said he told Mr. Skilling of his concern over the company's many complex partnerships. Did you ever talk to him?

Ms. WATKINS. On August 21, I met with Mr. McMahon for roughly 1½ hours, and that is when he told me that he found the conflicts to be something that—you know, too great for Enron.

Mr. STEARNS. Too great for Enron?

Ms. WATKINS. Mr. McMahon did not characterize it as a bonus discussion with me. He characterized it as more of an ultimatum that he was giving Mr. Skilling; "Make these changes or I can't stay as Treasurer." And as I recall Mr. McMahon telling me, he felt like that was a strong statement to Mr. Skilling. And, you know, a few days or weeks later he gets a call saying—from Mr. Skilling that Mr. Skilling wanted him to go join a new venture, Enron Networks. And Mr. McMahon told me that he felt like Mr. Skilling was setting him up for a fall.

Mr. STEARNS. I asked Mr. Skilling about Mr. McMahon and this conversation. He said, "We talked nothing about what you mention, Congressman. All we talked about was compensation." I don't know if you heard Mr. Skilling say that.

Ms. WATKINS. Well, it sounds like that is the truth but not the whole truth.

Mr. STEARNS. Right. So Mr. Skilling is trying to convince me they are talking about the bonus for Mr. McMahon, and that is all they talked about. Yet it was clear to me, in all of the information we had, that Mr. McMahon was telling him all about the stuff that you just know about. And that is what you are saying. When you talked to Mr. McMahon, he told you the same thing, that he talked to him all about these partnerships.

Ms. WATKINS. The Raptor transactions had not been done, I don't think, or I am not completely aware. Mr. McMahon told me he did

not talk about accounting issues as much as there were—these deals were likely not benefiting Enron shareholders. They were likely benefiting Mr. Fastow and not Enron shareholders.

Mr. STEARNS. Okay. So that is directly opposite to what Mr. Skilling told us. And you are telling us that Mr. McMahon told you that, and Mr. McMahon has also told us that is what he told him. So I think it is clear at this point that there is two witnesses here that do not agree with what Mr. Skilling has said.

I think my time is up, Mr. Chairman. Unless Ms. Watkins would like to clarify.

Mr. GREENWOOD. The time of the gentleman—

Mr. STEARNS. Did you want—Ms. Watkins, did you want to clarify anything?

Ms. WATKINS. Well, I just wanted to add that I also heard from one of Mr. Baxter's close friends that he had a conversation with Mr. Skilling in March of 2001. Mr. Baxter's recollection of the meeting was that he told Mr. Skilling, "We are headed for a train wreck, and it is your job to get out in front of the train and try to stop it."

Mr. STEARNS. Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair recognizes the gentlelady from Colorado, Ms. DeGette, for 10 minutes, and would note that at the end of her questioning we will recess for approximately 20 minutes for the vote.

Ms. DEGETTE. Thank you, Mr. Chairman.

Ms. Watkins, before I ask my questions, I just want to welcome you and let you know how impressed I was by your memos and by your testimony. And when I was reading this, I felt sort of a bond with you. First, I thought, well, maybe it was because we were both women of about the same age working in the male-dominated fields. I thought, no, it is not that.

Then I said maybe it is because we are both moms, because moms tend to get—you know, you can figure out if someone is telling the truth. But then I realized, no, it is not that. What it is is both of our mothers were teachers, as I understand. Your mother taught accounting. My mother taught kindergarten. And then I realized that both perfectly prepared us for the careers we were going to embark on.

And I really want to thank you for coming.

I want to ask you, did you write these memos, Ms. Watkins, all by yourself?

Ms. WATKINS. Yes, I did.

Ms. DEGETTE. So if someone said that you ghost—that someone else, like Mr. McMahon, ghostwrote these memos, that would not be true?

Ms. WATKINS. That is not true.

Ms. DEGETTE. And you wrote these because you were concerned about the future of the company and the future for the shareholders, didn't you?

Ms. WATKINS. Yes.

Ms. DEGETTE. Were you aware that Mr. Fastow told the Vinson & Elkins investigators that it was his belief that you were acting in conjunction with a person who wanted Mr. Fastow's job?

Ms. WATKINS. I think that is ludicrous.

Ms. DEGETTE. Do you think—it is not true, is it? Are you surprised Mr. Fastow might think that?

Ms. WATKINS. I am not surprised he would think that.

Ms. DEGETTE. Why not?

Ms. WATKINS. I understand that he and Mr. McMahon had a rather contentious relationship.

Ms. DEGETTE. And so you think he was referring to Mr. McMahon.

Ms. WATKINS. Yes.

Ms. DEGETTE. Okay. Now, you worked for Arthur Andersen for 8 years, but it was a long time ago, right?

Ms. WATKINS. Yes.

Ms. DEGETTE. And you are a CPA, right?

Ms. WATKINS. Yes, I am.

Ms. DEGETTE. Now, let me ask you this. How long had you been working for Mr. Fastow before you figured out that there were problems with the Raptor SPEs?

Ms. WATKINS. I would say about 3 or 4 weeks.

Ms. DEGETTE. So all these people who said these were very complex transactions, and there wasn't much transparency, it didn't take an accounting genius, although I am sure you are one, but, I mean, you figured it out in 3 or 4 weeks, right?

Ms. WATKINS. Well, I had the advantage of hindsight where these structures were clearly under water, and also I was never shown the complex transactions. I just knew what the facts were. Raptor owed us \$700 million. No one had lost that money. Enron shareholders were going to pay for it in the future. So I didn't need to see the structure. I knew that—

Ms. DEGETTE. Right.

Ms. WATKINS. [continuing] that wasn't kosher.

Ms. DEGETTE. Even Congresspeople like us can figure that out. So, now, you said that information—in your testimony you said the information gathered from co-workers helped you come to the conclusion that the Raptor SPEs were finally untenable. It was pretty common knowledge in discussion among the co-workers about these entities, correct?

Ms. WATKINS. Yes, it was.

Ms. DEGETTE. Can you tell me how widespread the concern was?

Ms. WATKINS. The Enron global finance staff knew about it, and various business units that had sold assets to Raptor knew about it. There were whole sections of Enron, the pipeline group, the trading group, that had no idea about it. But in a handful of groups it was widespread knowledge.

Ms. DEGETTE. But what about your group? I mean, did people talk about this commonly? How many people are we talking about?

Ms. WATKINS. I think a fair number. One of the things I asked Vinson & Elkins to do was to look at a—a survey had been conducted by Mr. Lay over the Labor Day weekend. And I knew of at least a dozen people who had typed in serious concerns about our accounting.

Ms. DEGETTE. You knew a dozen people who had typed in concerns.

Ms. WATKINS. Yes.

Ms. DEGETTE. Ms. Watkins, would you be willing to share those names with this committee?

Ms. WATKINS. I can share certainly at least two, because they are in the documents that you are releasing today.

Ms. DEGETTE. Would you be willing to, as part of our investigation, to share the rest of them?

Ms. WATKINS. Well, I can share Jeff Donahue, who was the Managing Director in Charge of Corporate Development.

Ms. DEGETTE. Okay.

Ms. WATKINS. Tim Detmering, a Managing Director in Corporate Development; Michelle Nezi Marvin, one of the business unit people who had hedged assets with Raptor.

Ms. DEGETTE. Jeff McMahon.

Ms. WATKINS. I don't know whether he typed in comments.

Ms. DEGETTE. Oh, he didn't type—but he was concerned, right?

Ms. WATKINS. Yes.

Ms. DEGETTE. Cliff Baxter was concerned.

Ms. WATKINS. Yes.

Ms. DEGETTE. If you have other names, perhaps you could work with your counsel and with our staff, because that would help us in our investigation.

I am wondering if you can try to characterize the atmosphere in the global finance group and maybe elsewhere in Enron. Did everybody know what was going on, but everybody was too afraid to do anything about it?

Ms. WATKINS. It was rather widespread knowledge that Mr. Ray Bowen was complaining about the Raptor structures and LJM. And Mr. Fastow called him in and gave him, as Mr. McMahon puts it, a high decibel grilling. And so that I think made others—it was like an off limits subject. You just didn't even want to discuss it around the water cooler.

Ms. DEGETTE. So it wasn't that everybody certainly at your level knew but didn't care. It is that they were afraid to come forward. Would that be a fair characterization?

Ms. WATKINS. Yes.

Ms. DEGETTE. Now, why is it that you think Mr. Skilling knew about these issues?

Ms. WATKINS. Because he was an intense, hands-on manager.

Ms. DEGETTE. What is that? Can you give us a couple of examples of financial transactions you saw Mr. Skilling get involved in hands-on?

Ms. WATKINS. Well, for instance, in 1996 when I was still managing the JEDI partnership, we had equity investments in various—primarily oil and gas-related companies. That was the year we adopted fair value accounting, which meant that, as an example, if we paid \$100 million for an investment, an oil and gas company, and they drilled a dozen wells that were all successful, if our models showed us that we now thought that company was worth \$150 million, we would write that company up by \$50 million and recognize \$50 million in the income statement.

Well, a lot of the models were based off the multiples at which E&P companies trade. They were based off comparable analysis in the public marketplace. Mr. Skilling was very concerned that if the multiples that might have been at a high of seven or eight

cyclically moved down to, say, three or four, then our own models would force us to take a writedown. He sat in on a number of meetings where I was present, where we were trying to devise a real hedging strategy to avoid placing those losses on the income statement.

Ms. DEGETTE. So he was involved hands-on——

Ms. WATKINS. Yes.

Ms. DEGETTE. [continuing] personally in——

Ms. WATKINS. Yes.

Ms. DEGETTE. [continuing] accounting meetings talking about accounting treatments of transactions. Now, you saw the transaction sheets that the Chairman showed you before that had the signature sheet, signature line for his approval. Would it, in your experience, be like Mr. Skilling to not sign those?

Ms. WATKINS. No. The procedures around our approval sheets were cast in stone.

Ms. DEGETTE. And were they used in many transactions?

Ms. WATKINS. Yes. Any capital expended at Enron above a certain amount had a deal approval sheet, and the procedures were very well identified, and I never recall an instance where the approvals indicated via the approval signature block were not obtained. And no approvals——

Ms. DEGETTE. So if someone sent those to Mr. Skilling, and he didn't sign them, in your opinion that would be intentionally?

Ms. WATKINS. No deal could be done without all of those approvals. And quite often it was a verbal approval over the phone, and then it was always followed up by a signature.

Ms. DEGETTE. Great. Thank you very much. Thank you for coming today. I really appreciate it.

Mr. GREENWOOD. In the gentlelady's remaining time, Mr. Skilling's testimony here last week was that while there was a line provided—his term was there was a line provided for his signature, the form provided for his signature, that he was advised that his signature was not required. Are you aware of any such distinction with regard to those deal sheets?

Ms. WATKINS. No. Those deal sheets were cast in stone. If it was an either/or, it would say one of the following two signatures are required. If the name was listed in the signature block, it was required.

Mr. GREENWOOD. It was required. And there was never any provided for, as if he could sign it if he felt like it?

Ms. WATKINS. No, it was a requirement.

Mr. GREENWOOD. Do you know anything about Jordan Mintz's efforts to get him to sign the sheet?

Ms. WATKINS. I did not know of those until I heard his testimony here last week.

Mr. GREENWOOD. Okay. The Chair thanks the gentlelady.

The committee will recess for approximately 15 minutes.

[Brief recess.]

Mr. GREENWOOD. The committee will come to order.

The Chair recognizes Mr. Strickland for 10 minutes for purposes of inquiry.

Mr. STRICKLAND. Thank you, Mr. Chairman.

Ms. Watkins, toward the end of 1999, while you were working for Enron International representing the Caribbean region, you negotiated the sale of Promigas, an Enron asset, to a special purpose entity known as White Wing. Is that correct?

Ms. WATKINS. Yes. It is also known by its project name, which is Condor.

Mr. STRICKLAND. Okay. Enron's Caribbean region decided to sell Promigas to White Wing because Enron's risk and finance departments had put out the word that all divisions should sell merchant assets to White Wing by the end of the third and fourth quarters of 1999. Besides that mandate, was there any other reason for Enron to sell Promigas to White Wing at that time?

Ms. WATKINS. No, there was not.

Mr. STRICKLAND. Ms. Watkins, would you please briefly explain what a merchant asset is for the benefit of this committee?

Ms. WATKINS. Enron has both merchant assets and strategic assets. Merchant assets are assets considered held for sale, that we have bought for investment purposes and that we generally do not intend to hold on to for any length of time. Merchant assets could be fair valued, meaning they could be written up to estimated market value, while strategic assets, if they were worth more than Enron had paid for them, those gains could not be recognized until we sold or disposed of the asset.

Mr. STRICKLAND. Okay. Now, Enron decided to sell its merchant assets to White Wing in order to increase its cashflow. Was there any other reason for this decision?

Ms. WATKINS. I believe that the assets sold to Condor White Wing, the merchant assets, generated—I know they generated funds flow from operations for Enron, and I believe that to be one of the sole purposes for selling assets into Condor White Wing.

Mr. STRICKLAND. Okay. In fact, cashflow had become a big concern for Enron, had it not?

Ms. WATKINS. Yes, that is correct.

Mr. STRICKLAND. Now, Wall Street analysts began to distrust Enron's increasingly complex earnings statements, so they started examining the company's cashflow. After all, cash is cash. However, since Enron had been manipulating its earnings, its cashflow would appear inadequate compared to its inflated earnings statements. This was a problem for Enron, was it not?

Ms. WATKINS. Well, I am not certain that Enron was manipulating its earnings at that point in time. But for a commodity trader where you would routinely mark-to-market positions, you can have earnings that represent the discounted fair value of 10 years worth of profits. You recognize that in the first year, but you would only have cashflow of, say, one-tenth of that profit in that year.

That is probably not an unheard of phenomena with trading companies, but trading companies have PE multiples in the 12 to 14 range. Enron enjoyed a much larger price to earnings multiple and did not want to be characterized as a normal trading company.

The analysts were concerned that our funds flow from operations was significantly lower than our earnings. It was a financial performance statistic that they were concerned about, and Enron attempted to fix that first, fairly legitimately, by securitizing contracts and selling them out to outside third parties.

I might want to correct a statement that Congressman Greenwood made earlier. I do think that the Cactus vehicles, the contract to asset securitization vehicles that we did in the early 1990's and 1995/1996 were legitimate, were legitimate securitizations.

Condor, however, I think was one of the first special purpose vehicles that was backstopped by Enron stock that was kept off balance sheet, and I think one of the main purposes of Condor White Wing was to generate funds flow from operations for Enron.

Mr. STRICKLAND. So, and correct me if I say something that you think is factually inaccurate, but it seems that Enron planned to increase its cashflow by selling these merchant assets to White Wing during the third and fourth quarters of 1999.

Ms. WATKINS. That is correct, yes.

Mr. STRICKLAND. Did Enron provide any guarantees to White Wing for these transactions that you know of?

Ms. WATKINS. The White Wing structure was set up such that if the assets that were sold to White Wing were not liquidated and were not sufficient to repay the investors in White Wing, then that structure was backstopped by Enron stock.

Mr. STRICKLAND. So this was a transaction where Enron guaranteed an investment with its own stock? Is that a factually correct statement?

Ms. WATKINS. These vehicles have been schematically depicted in The Wall Street Journal and in the Houston Chronicle and a number of press. It supposedly is legitimate. I don't quite understand how these things can be off balance sheet when you have a claw back to the company and to the company's own stock, but somehow or other they appear to be available for use.

Mr. STRICKLAND. And I am impressed with your background and your training, and I sit here and I hear you say that. And I am wondering at what point is there some authority that has the ability to explain why something that appears to be illegitimate may be legitimate. Is that a puzzle to you as a professional CPA and a person who is deeply knowledgeable about financial transactions?

Ms. WATKINS. Well, the Condor structure troubled me. The fact that it was off balance sheet troubled me. The fact that we were, you know, getting funds flow from operations, the financial performance statistic from this structure troubled me. And while I was working in the Caribbean business unit, we were instructed that we now had new targets. They were funds flow targets, and we needed to find a way of selling our merchant assets into Condor White Wing.

It was almost like something that was on paper, not real, because the business unit continued to manage the asset. The counterparty never understood that we had supposedly sold it. And there was an unspoken understanding that we could buy it back at some point in the future.

Mr. STRICKLAND. Now, after Enron sold Promigas to White Wing, who managed and operated that company?

Ms. WATKINS. The Caribbean business unit. It stayed with the Caribbean business unit.

Mr. STRICKLAND. And that was Enron?

Ms. WATKINS. Yes, that is Enron. But it was not White Wing personnel that managed it. It was Enron personnel who managed it.

Mr. STRICKLAND. In fact, the people involved in the day-to-day functioning of Promigas didn't even know they had been—that it had been sold, is that—

Ms. WATKINS. That is correct.

Mr. STRICKLAND. Is that correct?

Ms. WATKINS. That is correct.

Mr. STRICKLAND. Ms. Watkins, who was the general partner of White Wing? In other words, who ran White Wing?

Ms. WATKINS. I believe it was something called an Osprey, or something, but it was an Enron entity that was the general partner of White Wing.

Mr. STRICKLAND. Would it be possible for you to identify for the committee the individuals who were involved in running this?

Ms. WATKINS. The administrative running of White Wing was under Mr. Andrew Fastow, and I believe he had Cheryl Lipschutz running the Condor White Wing structure.

Mr. STRICKLAND. Okay. Enron sold these assets to White Wing at book value.

Ms. WATKINS. Yes.

Mr. STRICKLAND. Compared to market value, is book value a reliable indicator of an asset's true worth?

Ms. WATKINS. The transactions were supposed to be sold into White Wing at market value. I believe they were all transacted at book value, and we documented the fact that book values were close approximations of market values at that time.

Ms. DEGETTE. Will the gentleman yield for 1 second?

Mr. STRICKLAND. I would yield.

Ms. DEGETTE. Cheryl Lipschutz was the secretary to the Board of Directors of Enron at that time, right?

Ms. WATKINS. No.

Ms. DEGETTE. Was she employed by Enron?

Ms. WATKINS. She was employed by Enron under Mr. Andy Fastow.

Ms. DEGETTE. Okay. I just wanted to clear that up, that Mr. Fastow was in charge and Cheryl Lipschutz was running it, and they were both working for Enron.

Ms. WATKINS. Yes.

Ms. DEGETTE. Thank you.

Thank you.

Mr. STRICKLAND. Thank you. I have just a couple more questions, Ms. Watkins.

Mr. GREENWOOD. You have just a couple more seconds.

Mr. STRICKLAND. One more question, Mr. Chairman.

Wall Street analysts were beginning to doubt Enron's deceptively complex earnings statements, so they began to look at Enron's cashflow as a more reliable indicator of the condition of the corporation. To make sure its cashflow appeared proportional to its earnings, Enron decided to increase its cashflow. Is that correct?

Ms. WATKINS. Yes.

Mr. GREENWOOD. The time of the gentleman has expired.

Mr. STRICKLAND. Thank you, Mr. Chairman.

Mr. GREENWOOD. Ms. Watkins, when you were involved in this transaction to sell assets to Condor, was there discussion or agree-

ment about whether or not those assets could be sold back, and whether there were documents that would reflect that?

Ms. WATKINS. As I recall, there were extensive conversations because Promigas was an important asset for the region. We were legally selling it to this White Wing structure. Legally, we were losing control of the asset, and there was a lot of discussion that we wanted it back, we drafted some documents that would be trigger points where the business unit could buy it back.

My understanding was that Mr. Causey instructed our business unit that there could be nothing in writing that the business unit could buy it back, or Andersen would not let us have the sale treatment that we were getting in the funds flow statement.

Mr. GREENWOOD. And that was the purpose of that, because you would—

Ms. WATKINS. Yes.

Mr. GREENWOOD. If the charade was evident, you wouldn't be able to get a tax trade.

Ms. WATKINS. Yes.

Mr. GREENWOOD. The Chair recognizes the gentleman from Illinois, Mr. Rush, for 10 minutes.

Mr. RUSH. I want to thank you, Mr. Chairman, and Ms. Watkins. This is certainly very pleasing that you are here. Your testimony has been forthright, and I would say without any kind of value in terms of Ms. Temple's testimony. I am diametrically opposed to the kind of testimony that Ms. Temple presented to this committee, and it is certainly appreciative by the committee, at least one member of the committee, and I believe that it is appreciative—your testimony is appreciative—is appreciated by the American public.

On what date did you first speak with Cindy Olson or communicate with her in any way about your concerns about the natural condition of Enron?

Ms. WATKINS. On the afternoon of August 16, following the all-employee meeting that had been held that day.

Mr. RUSH. And how many times did you speak with her about your concerns, and approximately during what time period?

Ms. WATKINS. She encouraged me to meet with Mr. Lay, which I did do. I then subsequently transferred into Ms. Olson's group. I did not have lengthy conversations with her after that about my concerns. I had expressed them to Mr. Lay, and I thought that was the best place to discuss them.

Mr. RUSH. So did you read your various letters—or did Ms. Olson, rather, read your—the various letters that you sent to Mr. Lay and the attachments?

Ms. WATKINS. I only showed her the anonymous letter, the one page. I did not provide her with copies of the other memos. If she obtained them elsewhere, I don't know.

Mr. RUSH. And what was her response when you showed her the anonymous letter?

Ms. WATKINS. She clearly understood that this was a serious problem, and she said that it would be best if I explained it personally to Mr. Lay.

Mr. RUSH. Okay. At what time did you—in your earlier testimony, you indicated that you had a discussion with Ms. Olson about Mr. Fastow's desire to have you terminated. At what point

in the aforementioned series of discussions did you have that—express that concern to Ms. Olson?

Ms. WATKINS. When I met with Mr. Lay on the 22nd, I was leaving for a small vacation that Friday, coming back the following Thursday. When I came into the office August 30, I had messages to immediately go see Ms. Olson, and that is when she told me that Mr. Fastow had wanted to have me fired, and wanted to seize my computer.

Mr. RUSH. Okay. Did she in any way indicate to you the attitude displayed by Mr. Fastow? I mean, was he—his demeanor, or how did she exactly—how did she relate to you what he had said? What was his frame of mind? If you can—

Ms. WATKINS. She didn't give me a lot of details. She just said that he was behaving in a way that was somewhat shocking to her as well as Mr. Lay.

Mr. RUSH. And what is Ms. Olson's relationship with the Enron Corporation?

Ms. WATKINS. I believe she is a Senior Vice President or an Executive Vice President.

Mr. RUSH. Is she associated at all with the stock fund at Enron?

Ms. WATKINS. I was not aware of it. I have since seen, in some testimony, that she is a trustee. But I was not aware of her position with regards to the 401K plan.

Mr. RUSH. And if she was a trustee at the time when this all was occurring, do you think that she had any fiduciary obligation to at the very least make an investigation into your claims, pursuing your claims?

Ms. WATKINS. I think she probably understood that they were being investigated and by a professional law firm. I am sure she was waiting to see the results of that investigation.

Mr. RUSH. And can you be more specific about your concern—about what you said to her about your concerns about Enron's financing? I mean, what was her response to you? Did you—how did she respond? And did she indicate in any way that she had heard these same kind of concerns from other Enron employees?

Ms. WATKINS. Well, after Enron declared bankruptcy, or even as we were heading up to it, she seemed to indicate that no one could have seen this coming. She said, in fact, that I was the only one that had any kind of inkling that we were in the bad condition that we were in. So I don't think she had evidence from anyone else, or opinions from anyone else, about our condition.

Mr. RUSH. Yes. My time is running down, but I am really—I want to—if you could just explain to the committee about the culture there at Enron. It seems to me that everybody from the President to the parking lot knew that there was—parking lot attendant knew that there was something going on there. I mean, explain to us about the culture that was prevalent there in the company.

Ms. WATKINS. Well, I certainly think it was fairly well known about the Raptor transactions within the global finance unit and within the business units that hedged with Raptor. I don't think it was well known throughout the company.

And the culture in Enron was voted most innovative. It was voted one of the best places to work. It was the job to have in Houston. The atmosphere was electric. It was fun. You were sur-

rounded by bright people, energized to change the world. You felt somewhat invincible. And, yes, people were arrogant, and it was—did have a trader kind of mentality that was sometimes tough to live with. But it was always a fun place to work.

Mr. RUSH. And most people were conscious about their upward mobility in the company, and they thought that the company would be a place to move up fairly quickly, is that—

Ms. WATKINS. Everyone was very conscious of what they were contributing in the last 6 months. The performance ranking system judged you on what you contributed to the company in the last 6 months. No old tapes. In that sense, it was very competitive.

Mr. RUSH. And Mr. Fastow and Mr. Skilling and others could very easily manipulate that type of concern to have people to overlook some of the transgressions that they—that we are looking into right now? Is that your opinion?

Ms. WATKINS. Enron paid its people very well. The stock had been performing very well. I think there was a concern by most people that you didn't want to rock the boat.

Mr. RUSH. Do you have any relationship, any subsequent relationship to the bankruptcy, to some of the Enron employees who had been fired from Enron, some of the lower level employees?

Ms. WATKINS. I know several people who have been let go.

Mr. RUSH. And do you—there is the issue regarding their severance pay. Are you familiar with those—

Ms. WATKINS. Or lack thereof.

Mr. RUSH. Or lack thereof, right. Can you expound on what you think is the problem with their severance pay, and what is the—why is it at this point in time there are some former Enron employees who have made tremendous amounts of money, and who have very generous severance pay, and then there are others who have been forced to live in ways that they never imagined that they would have to live because of the fact that they don't have the severance pay? Do you see a problem there? And what is the nature of the problem? And how would you recommend that we go about resolving the issue?

Ms. WATKINS. Well, recently it was disclosed, maybe at Salon.com, the retention bonuses that were paid the week before the bankruptcy. Some of the amounts I find shocking for 90 days' retention, and I do not believe that it was in the best interest of creditors to—yes, we should retain certain people, but I don't think they needed to be paid, 3 and 4 times their base salary to stay for 90 days.

I think it is an insult to the 4,000 people that were let go with \$4,000 checks that there are a handful of people, more than a handful, that were paid \$600,000, \$1.5 million, \$2 million, \$450,000. I mean, gargantuan sums of money to agree to stay at Enron for 90 days. I am appalled by that list.

Mr. RUSH. Thank you.

I yield back, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Iowa, Mr. Ganske, for 10 minutes.

Mr. GANSKE. Thank you, Mr. Chairman.

And thank you, Ms. Watkins, for coming to the committee. You know, I am outraged at what has happened with Enron. Employ-

ees, pensioners, investors, they have seen their nest eggs disappear, and they speak about unbearable grief. In Iowa, we had—I have spoken to a lot of former employees of the natural gas company that was based in Omaha, merged with the Houston Natural Gas Company, became Enron, and they have lost everything.

I mean, there was even a suicide when a former executive who left the company with millions couldn't deal with the collapse of the company. So this is really serious. I do not think this is—that the problems we are seeing with Enron are just an issue of corporate greed in one company. I think that, you know, we are seeing problems with companies like Global Crossing, Elon. They took—you know, gave the money to someone else, took some of it back, counted the income as revenue without counting the outgo as expense.

Amazon has resorted to pro forma accounting. Shares in Tyco dropped 50 percent on questions of its accounting. So this is a big, big deal, the biggest bankruptcy in our Nation's history.

I applaud the full chairman—the chairman of the full committee and the chairman of this investigative committee on doing this.

Now, Ms. Watkins, just briefly, in a minute, tell me, what was your job around the time that you went to Ken Lay? What were you supposed to be doing for the company?

Ms. WATKINS. I was gathering a list of all assets that we might consider for sale and looking at the economic impact of sale. So I was looking at the book value, the market value, what kind of gain or loss we might get if we were able to sell that asset for its market value.

Mr. GANSKE. So you started—with that information, you started to piece together this whole scenario. Is that what happened?

Ms. WATKINS. Well, yes, because a number of assets were hedged with Raptor. And my understanding of a hedge is that means you have got a locked in sales value. And so some of these assets, most notably Avici and New Power, the market values were significantly below our book value. But since we had the assets hedged, that should have been really no concern of Enron's. It should have been hedged with Raptor.

And the business units that were helping me pull together this information kept showing me losses, that should have been Raptor's, coming back to Enron.

Mr. GANSKE. Okay. Were you also hearing, you know, scuttlebutt around the company about some of these things that you were seeing?

Ms. WATKINS. Not accounting impropriety scuttlebutt, just pretty—

Mr. GANSKE. Did you ever hear, you know, at the water cooler about somebody who made an investment of \$10,000, \$15,000—

Ms. WATKINS. No.

Mr. GANSKE. [continuing] and got millions?

Ms. WATKINS. No, I did not.

Mr. GANSKE. Okay. So you are gathering all of this information together. Did you ever have any trouble getting the information?

Ms. WATKINS. On the structures and the way they actually worked, no, I did not. It was readily apparent people had various analyses and presentations that they provided me.

Mr. GANSKE. So then you write this letter to Ken Lay and you say, "I am incredibly nervous that we will implode in a wave of impending scandals." I want to read this full paragraph. "Is there a way our accounting gurus can unwind these deals now? I have thought and thought about how to do this, but I keep bumping into one big problem. We booked the Condor and Raptor deals in 1999 and 2000. We enjoyed a wonderfully high stock price while many executives sold stock.

"We then try and reverse and fix the deals in 2001, and it is a bit like robbing the bank in 1 year and trying to pay it back 2 years later. Nice try, but investors were hurt. They bought at \$70 to \$80 a share looking for \$120, and now they're at \$38 or worse. We are under too much scrutiny, and there are probably one or two disgruntled pre-deployed employees who know enough about the funny accounting to get us into trouble."

When you wrote this letter to Mr. Lay, what was going through your mind? Were you afraid?

Ms. WATKINS. Well, I wanted to impress upon him that this was something that was likely to happen. We were downsizing. We had at this point maybe let go at least 400 or 500 people and—

Mr. GANSKE. But this is bad news. Okay? And you are writing this—you know, you originally wrote this anonymously.

Ms. WATKINS. Yes.

Mr. GANSKE. Okay. This is really bad stuff. I mean, were you worried that if you go to the President with this type of stuff that this could affect you personally?

Ms. WATKINS. I certainly was not going to go to Mr. Skilling. I believed, and I still believe, that Mr. Lay is a man of integrity. He didn't shoot the messenger. I am still at Enron. And I felt like I could bring the concerns to him.

Mr. GANSKE. Did you put a personal copy of this somewhere outside of the company? Did you keep this—a copy of this memo somewhere else?

Ms. WATKINS. I did. And the day I sent it to Mr. Lay anonymously I also sent it in an envelope to Mr. McMahon with my name on it. And I talked to him about it that day.

Mr. GANSKE. Did you keep a copy for your own personal files?

Ms. WATKINS. Yes, I did.

Mr. GANSKE. And where did you keep those files? At home?

Ms. WATKINS. No.

Mr. GANSKE. At work?

Ms. WATKINS. No. In a lock box.

Mr. GANSKE. In a lock box. So you were enough concerned about this that you wanted to put this somewhere where it couldn't be destroyed.

Ms. WATKINS. Yes.

Mr. GANSKE. Were you worried about your own personal safety?

Ms. WATKINS. At times. Just because the company was a little bit radio silent back to me, so I didn't know how they were taking my memos, or the investigation.

Mr. GANSKE. Why would you be worried about your personal safety?

Ms. WATKINS. Because it was the seventh largest company in America.

Mr. GANSKE. And you were dealing with really—a really powerful problem.

Ms. WATKINS. Yes.

Mr. GANSKE. And a really powerful company. I just have to ask you this. When you first learned about this problem at Enron, did you own stock?

Ms. WATKINS. I have stock in the 401K plan, and I have stock options.

Mr. GANSKE. Did you sell any of that stock?

Ms. WATKINS. Yes, I did.

Mr. GANSKE. When did you sell it?

Ms. WATKINS. I routinely diversified and did not hold that much Enron stock or stock options. I did sell \$31,000 worth of stock in late August, and then I sold net to myself around \$17,000 of stock options in early October.

Mr. GANSKE. And you sent this first—these memos to Mr. Lay when?

Ms. WATKINS. August 15.

Mr. GANSKE. So around the time that you sent these memos, after you had gathered this data and gotten to know the financial situation of the company, you sold some stock. Why did you sell it?

Ms. WATKINS. I could have sold in July at \$45. I actually sold in October more out of a knee-jerk reaction to September 11. When the markets reopened after the terrorist attacks, most stocks did decline. Enron declined into the low 20's. I had virtually no stock options that were in the money in the low 20's.

In early October, we moved into the mid 30's and even high 30's, and I had two blocks of stock options that were then in the money. And I just, I think as many others, I felt some panic and need to get cash because you just felt like, you know, when was the next attack? What would that impact be on the stock market?

Mr. GANSKE. So you sold \$30,000 at one time and \$17,000 at another time?

Ms. WATKINS. Yes.

Mr. GANSKE. So \$47,000. When you found out—when you gave the second memo and had the meetings with Mr. Lay, and then as we have heard from testimony today, you know, you were concerned that, you know, it was going back to the same law firm, kind of looked like it was a cover up, things weren't happening too much. Did you ever think about, you know, going to Treasury, Justice, the SEC, blowing the whistle on this? This is—you know, you have outlined potentially criminal behavior.

Ms. WATKINS. A co-worker of mine asked whether I had done this, and she asked whether or not I would consider going to the SEC on this. And I said I don't want to hasten our demise. There are 20,000 employees here whose livelihood is at risk. If it appears that I hastened the demise of the company, I might be targeted by them. They might confuse the problem as something I caused. I did not want to hasten the demise.

Mr. GANSKE. When you had your conversations with Mr. Lay, did he ask you not to share this information with anyone?

Ms. WATKINS. He did ask me had I taken it outside; had I taken it to the SEC or the press, and I said no, I had not done so. And

he said, "Can you please give us time to investigate?" And I said, "Oh, most definitely."

Mr. GANSKE. Did he give you a timeline? Did you ask him for a timeline?

Ms. WATKINS. I did not ask him for a timeline. But he seemed to indicate that they would look into it rather quickly.

Mr. GANSKE. Well, we all know, and you as an accountant could see the problems coming. I mean, you wrote about it an impending implosion. This must have weighed quite heavily on your mind in terms of thinking about what would happen both to your fellow employees as they were locked in, and investors around the country.

Tell me what you were feeling about that time, specifically on whether you had an ethical obligation to let this be known.

Ms. WATKINS. I wasn't thinking legally. I really felt like I could not go outside of the company. Enron was full of bright people. There were maybe calm ways of addressing this. Having it hit the press in an inflammatory way would definitely hasten the demise.

And I wanted to make sure that we had researched everything thoroughly, because what I wanted to do was restate, come clean, but with some contingency plans how to make sure our trade counter parties had confidence in our survival, maybe shore up some equity and finance deals, knowing that we were going to face hard times.

But to go to the press, or to go to the SEC, would not have given Enron a chance to try to fix it calmly. And most definitely this news would have been inflammatory, and we would be in the same position we are in right now.

Mr. GREENWOOD. The time of the gentleman has expired.

Mr. GANSKE. Thank you, Mr. Chairman.

Mr. GREENWOOD. Before I recognize Mr. Markey for questions, I just wanted you to clarify something, Ms. Watkins. The Powers Report indicated that you had not cooperated, or had not participated in that investigation. Is that the case?

Ms. WATKINS. Well, not actually. They called me for the very first time December 13 and wanted to interview me the following week. I was actually a little surprised that it took them so long to——

Mr. GREENWOOD. It took them 2 months. Is that right?

Ms. WATKINS. [continuing] to call me, yes.

Mr. GREENWOOD. Any indication why it took them 2 months, since you were so essential?

Ms. WATKINS. I had just hired Mr. Hilder. Enron was offering an attorney to represent me that was also representing Mr. Causey and Mr. Buy. I was not comfortable using that attorney, so I had spoken with Mr. Hilder. He was not up to speed yet on the issues. So we did meet with the Special Committee the week before Christmas, but just to say that we needed to reschedule. They indicated that they were trying to look at evidence first before they conducted interviews.

Mr. GREENWOOD. The Chair recognizes the gentleman from Massachusetts, Mr. Markey, for 10 minutes.

Mr. MARKEY. Thank you, Mr. Chairman.

Thank you, Ms. Watkins. Pinocchio had a conscience called Jiminy Cricket. Every time Pinocchio ignored Jiminy Cricket his

nose grew longer and longer. You were the conscience of this corporation. You warned them. And when they ignored your advice, they had to tell more lies. And the longer they told those lies was the more jeopardy that investors and employees of Enron were placed in.

Now, what you have done is really very courageous. You are a hero. But being a whistleblower is something that can test the strength of the strongest person. It can buckle their knees. And I have a feeling that this is just the beginning of a process for you in terms of the stress that you are going to be under.

I just want you to know that for my part, and I think I speak for every member of this committee, that if actions that you feel are unwarranted are being taken against you because of what you are doing here that you should let us know. They did the same thing to the Morton Thiokol whistleblowers that spoke of the O-ring. They demoted them. They punished them. But once Congress intervened, that was rectified within a day. So you should let us know that.

Now, in both your August 15 and August 22 letters to Mr. Lay, you warned that, "We do have valuation issues with our international assets and possibly some of our Enron Energy Services and mark-to-market positions."

Now, we know that Enron has created thousands of special purpose entities. Do you believe that there may be some mark-to-market valuation problems involving transactions with any of these other special purpose entities that were constructed?

Ms. WATKINS. I don't believe so. A number of the special purpose entities that Enron has are somewhat routine. Enron did hire the best and the brightest, and a lot of them were structures so if we did want to sell an international powerplant, we had a number of subsidiaries that might appeal to a European buyer, an Asian buyer. Some of them were very legitimate, just to provide us all the options we might want to pursue some time in the future.

Mr. MARKEY. How about Enron's international assets? Do you think there could be some mark-to-market valuation problems there?

Ms. WATKINS. Not so much mark-to-market, but in accounting if you have a long-term asset on your balance sheet that you feel is permanently impaired, you must write that down. And I believe there may be some problems with some of Enron's international assets.

Mr. MARKEY. And how does that problem manifest itself?

Ms. WATKINS. If it appears that you will not achieve over time the value you have paid for a particular asset, you must write it down. So that would be an income statement impact when you realize you have got the valuation problem.

Mr. MARKEY. So, in other words, if they mark to the model, and it turns out the model is not working—

Ms. WATKINS. That is on our fair value assets.

Mr. MARKEY. Right.

Ms. WATKINS. Most of the international assets were not necessarily fair value assets. Those tended to be the domestic ones. We do have some domestic assets that are fair value that are marked to a model that is somewhat subjective.

Mr. MARKEY. Okay. Now, Mr. Skilling has told us that he wasn't involved in the March 2001 Raptor transactions. The Powers Committee reports that others at Enron say he was. And Powers is critical of Mr. Skilling's failure to assure that the Raptor losses were properly accounted for in the first quarter of 2001. Do you have any knowledge of Mr. Skilling's involvement with or participation in the Raptor vehicles?

Ms. WATKINS. No, I do not.

Mr. MARKEY. You do not. Now, in October of 2000, Mr. Fastow convened a meeting of the LJM partners to review their activities. Mr. Skilling is listed as a guest speaker. On page 7 of the presentation document for this meeting, Mr. Fastow says that the reason Enron needs private equity is because "energy and communications assets typically do not generate earnings or cashflow within the first 1 to 3 years, and investments dilute Enron's current earnings per share and its credit rating ratios." Do you agree with that?

Ms. WATKINS. Some energy and communication assets generate cashflow. But I guess he means our—Enron's energy and communication assets—

Mr. MARKEY. Yes.

Ms. WATKINS. [continuing] were not generating cashflow.

Mr. MARKEY. And you agree with that.

Ms. WATKINS. Yes.

Mr. MARKEY. Now, the proposed solution in that document was "to deconsolidate assets" and "create structures which accelerate projected earnings and cashflows." Now, you had run the JEDI partnership and had sold a Colombian asset to White Wing to increase cashflow. Would you agree that this was the purpose of Enron's SPE?

Ms. WATKINS. The purpose of the Condor SPE appeared, in my opinion, to be to generate funds flow. As far as LJM, I am mainly familiar just with Raptor and the Raptor special purpose entities. And it does appear that that—that those were created solely to ensure that certain losses that should flow through our income statement were masked.

Mr. MARKEY. All right. If you could turn to page 9, where it says that private equity can also be used for "earnings generation." You found that to be true on the Raptors SPEs, didn't you?

Ms. WATKINS. Yes.

Mr. MARKEY. You did. Now, Mr. Skilling told us under oath that while he was at Enron he was not aware of—and this is what he told the committee—"any financing arrangements designed to conceal liabilities or inflate profitability," and that, again, "the off balance sheet entities or SPEs that have gotten so much attention are commonplace in corporate America, and, if properly established, they can effectively shift risk from a company's shareholders to others who have a different risk-reward preference. As a result, the financial statements issued by Enron, as far as I know"—this is Mr. Skilling speaking—"accurately reflected the financial condition of the company."

So, in your opinion, was Raptor IV "a financing arrangement designed to conceal liabilities or inflate profitability?"

Ms. WATKINS. Well, I would focus in on his comment that we did these deals to shift risk and return to an entity that wanted to bear

that differing risk and return. The risk and return scenario that Enron didn't want to bear transferred to a special purpose entity. We know from the Powers Report that there was no real economic risk transferred to Raptor.

Mr. MARKEY. Do you believe that he knew the actual financial condition of the company? Mr. Skilling, that is.

Ms. WATKINS. Yes, I do.

Mr. MARKEY. You do. Here on the LJM2 approval sheet, we have Skilling signing off at Tab 2. Doesn't that mean to you that Mr. Skilling was involved in Raptor?

Ms. WATKINS. On these transactions where he is signing off, he should be. I am looking at one that says Jeff Skilling, Joe Sutton, with no signature. But maybe it was—oh, I don't know who that is that signed it. But if there was a signature block on these sheets it had to be filled.

Mr. MARKEY. Okay. So, yes, that would be back on the first, second, page 3, fourth page. It says LJM approval sheet, page 3. And the bottom is Executive Jeff Skilling, with his signature next to it, March 12, 2001. Can you see that?

Ms. WATKINS. March 12, 2001. That is under Tab 2?

Mr. MARKEY. Yes. It is in Tab 2, page 3.

Ms. WATKINS. Yes.

Mr. MARKEY. Now, what does that indicate inside the corporate structure, as you know it, when a signature like that is under—

Ms. WATKINS. Well, he is approving Raptor IV. And I am sure he was well versed with what this meant.

Mr. MARKEY. Are you sure?

Ms. WATKINS. He typically was very well versed.

Mr. MARKEY. So in your opinion, then, at the very top of the company these men were well briefed with regard to what was going on inside of these special purpose entities.

Ms. WATKINS. It would be my opinion that Mr. Skilling would be very well briefed about these transactions.

Mr. MARKEY. Well, again, I thank you.

And, Mr. Chairman, I thank you for your—

Mr. GREENWOOD. The Chair thanks the gentleman.

Mr. MARKEY. [continuing] the last couple of years, and I thank you for your courage.

Mr. GREENWOOD. Before recognizing the gentleman from Texas, the Chair is going to exercise the prerogative because the Chair has to turn the gavel over to someone else.

Ms. Watkins, in your interview with V&E, you discussed that Fastow was, in effect, blackmailing banks to become investors in LJM. What did you mean by that?

Ms. WATKINS. I had heard from friends that worked at Chase and Credit Suisse and Bank of America that Mr. Fastow was almost somewhat threatening, that if you didn't invest in LJM, Enron would not use you as a banker or an investment banker again. That he was threatening the institutions, that to get Enron business they should invest in LJM.

Mr. GREENWOOD. Did that appear to be a successful strategy?

Ms. WATKINS. By the investors that are in LJM2, yes, it appeared to work.

Mr. GREENWOOD. And how about Mr. McMahon. He told us about promises that were made to the banks. Did he participate in that?

Ms. WATKINS. Well, I just remember from his testimony last week that he was——

Mr. GREENWOOD. Did he——

Ms. WATKINS. [continuing] he was asked about——

Mr. GREENWOOD. Did you discuss this issue with McMahon?

Ms. WATKINS. He and I discussed that Mr. Fastow used strong-arm tactics occasionally.

Mr. GREENWOOD. Okay. The Chair recognizes the gentleman from Texas, Mr. Green, for 10 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

And, Ms. Watkins, I have some questions. But, first, I had somebody from Houston send me an e-mail. Well, it actually came from another Member of Congress, and the young lady actually worked in Houston. And she said this, "Capitalism is if you have two cows, and you sell one and buy a bull, and your herd multiplies, and the economy grows and you sell them to retire on the income."

And now you have Enron capitalism. You have two cows. You sell three of them to your publicly listed company using letters of credit opened by your brother-in-law at the bank, and then execute a debt equity swap from an associated general offer so that you get all four cows back with tax exemptions for five.

The milk rights of the six cows are transferred via an intermediary to a Cayman Island company secretly owned by your CFO who sells the rights to all seven cows back to your listed company. And the annual report says the company owns eight cows with an option for six more.

When I saw this late last night, of course, we ran until 3, and I thought after hearing all of the testimony that we have heard before today, that is about what it sounds like. And your testimony is very refreshing, in all honesty. And like a lot of members, I, you know, respect you and admire you for being willing to put your job on the line to go up to the CEO and say, you know, "We have a problem."

And, you know, after reading Vinson & Elkins' response, they didn't respond like it should have been, and your testimony has already showed that.

Let me turn, if you could, to Tab 2 in your book. And what it is it is your memo that you sent to Mr. Hecker, because at our first hearing we actually had Arthur Andersen here and talked about your memo. Were you surprised—I know as a former Arthur Andersen employee—how quickly Mr. Hecker communicated your concerns to Andersen's management?

Ms. WATKINS. Yes, I am looking at Tab 16, and it is a memo from Mr. James Hecker dated August 21. I phoned him as he——

Mr. GREEN. Okay. Yes, it is Tab 2 on mine. It is Tab 16 on yours. Okay.

Ms. WATKINS. I phoned him, as it says, more like a sounding board to talk to him about my concerns before I met with Mr. Lay. I was thinking it was just something between us. In hindsight, I realized the severity of what I was concerned about was something that probably would induce him to do something about it. And I

read this when this committee released this document a few weeks ago.

Mr. GREEN. Okay. And when you spoke with him, you said—and you told me you thought it would be confidential, or just between you and him, or——

Ms. WATKINS. Well, I didn't say confidential necessarily, but I was just trying to run some things by him. I did not realize he had written a memo until this year.

Mr. GREEN. I guess in most organizations, though, if somebody brings something to my attention that impacts my company, or partnership in this case, you know, I would expect him to be able to go to someone else and say, "By the way, there is a problem that has been brought up, and it is my job to pass this on, so somebody in a decisionmaking capacity higher than mine can do it."

How long did you work with Arthur Andersen?

Ms. WATKINS. Eight years.

Mr. GREEN. Oh. So it was a number of years. Was it your experience that the practice groups tended to be sensitive about internal allegations of accounting irregularities during your 8 years?

Ms. WATKINS. If I was still an auditor at Arthur Andersen, and I got a call like mine, I would be highly concerned with the conversation and the topics that I brought up with Mr. Hecker.

Mr. GREEN. So it would circulate in the office and——

Ms. WATKINS. It doesn't surprise me that he, after reading this, talked to the people that he did, and that he did try to bring a lot of attention to my concerns.

Mr. GREEN. Yes. And were you surprised that it actually made it all the way up to Chicago?

Ms. WATKINS. Not really. Mr. Hecker indicated to me during our call that he hoped I wasn't right, because he didn't think their firm could stand another scandal following Waste Management and Sunbeam.

Mr. GREEN. Yes. And we have discussed that before at our hearings. I guess the Andersen folks who are here developed some type of "I don't remember" and "I don't recall" illnesses it seems like people get when they come into our committee room.

When you worked at Arthur Andersen—and I appreciate your insights on what has happened—but it seems like they weren't as forthcoming as maybe they should have been, having been notified last August, and maybe even questions before your memo to Mr. Hecker.

In most of your memos, you have almost always provided a list of additional people to speak with about collaborating your views. And you have been documenting, saying, "This is just my opinion, but here is other folks that can collaborate." Are there people in the Enron food chain that—who would be helpful to our subcommittee to talk to that maybe if we haven't had the opportunity—our investigators—is there anyone that you know of that you may not have shared with our committee staff?

Ms. WATKINS. I think I have mentioned most of the names to the staff—and also here today—that would be useful.

Mr. GREEN. Okay. Let me—another question. If you will turn to page 37. Okay. I am sorry. If you will—I am sorry, Tab 26. The

agenda for the LJM investments from October 26, 2000, annual partnership meeting.

Ms. WATKINS. Okay.

Mr. GREEN. I know that you haven't seen this document before. But I think you can shed some light on this for us. Now, on page 37 of this report, sample investments, Raptor I, their first bullet points to—or reads in relevant part that Raptor is a structured finance vehicle, capitalized with Enron stock, derivative in LJM equity, that will enter into derivative transactions with Enron related to investments in Enron's merchant investment portfolio.

How can an entity that is capitalized with Enron stock derivative legitimately enter into a derivative transaction with Enron? And how can Enron book that income from these transactions?

Ms. WATKINS. Well, the main issue, too, is that it was primarily capitalized with an Enron stock derivative. And the LJM equity had been completely offset by a cash fee paid to LJM. Under that structure I don't see how it could have been legitimate.

Mr. GREEN. Okay. And, again, this is the annual partnership meeting of October of 2000. In your memo in August, and what we have seen from the Powers Report that there was even information in the spring of 2001—so, you know, it was before your memo—and now we have the original—the annual partnership meeting—and I have to admit, I was a business major. But I couldn't make heads or tails about how you could quantify this. I appreciate your answer.

On page 38, sample investments, Osprey. The first bullet point reads to relevant part that Osprey is a partner in an investment vehicle that purchases merchant assets from Enron. It is capitalized with 50 million shares of Enron stock. If an entity were capitalized with Enron stock, and Enron sold assets—Enron sold assets to that entity, is Enron essentially selling assets to itself again?

Ms. WATKINS. Osprey and Condor and White Wing are all the same vehicle. And this is the Condor that I was referring to in my memos that I was uncomfortable with.

Mr. GREEN. So the answer to the question is, if an entity were capitalized with Enron stock, and Enron sold assets to the entity, is Enron essentially selling assets to itself?

Ms. WATKINS. In this instance, there were significant outside investors.

Mr. GREEN. Okay.

Ms. WATKINS. And they could fall back on the assets for repayment.

Mr. GREEN. Okay.

Ms. WATKINS. But it was also structured that if the assets were not sufficient to repay the debt investors, they also had the stock. Supposedly, this is a legitimate accounting structure. I am not happy with it. I think if there is a claw back to the company, to its own stock, it should not be off balance sheet. And the debt that came into Condor or White Wing or Osprey was used to purchase assets, and Enron got funds flow from operations treatment from that.

And I think if it had been a consolidated special purpose entity, it would have been funds flow from borrowings. And those are two

very different funds flow items, in terms of how an analyst would evaluate the company.

Mr. GREEN. Okay. The second bullet points out that this structure created a synthetic, multi-billion dollar balance sheet for Enron that deconsolidated assets to generate funds flow. If, in fact, these structures created synthetic balance sheets for Enron that indicated an increase in funds flow, would this be intentionally deceptive to investors, in your opinion?

Ms. WATKINS. Yes. In my opinion, it would.

Mr. GREEN. Ms. Watkins, you said earlier that the push to sell assets and increase cashflow began in the third and fourth quarters of 1999?

Ms. WATKINS. Yes, sir.

Mr. GREEN. So now 1½ years later, in its continued effort to artificially increase its cashflow, Enron is selling its assets at inflated prices to partnerships of which its senior executives are the general partners. These partnerships are either capitalized with or guaranteed by Enron stock, and this was done to improve the optics of Enron's balance sheet in order to deceive Wall Street analysts and investors.

I know that is a long phrase. But do you think these—in your opinion, these partnerships were either capitalized or guaranteed this was done to improve the optics. And I love the terminology, “the optics of Enron's balance sheets to deceive Wall Street analysts and investors.”

Ms. WATKINS. It appears that some of these vehicles were used for financial statement manipulation.

Mr. GREEN. Thank you.

Thank you, Mr. Chairman.

Again, thank you for being here, and I have been proud to read the articles about a Texas lady who is willing to do that.

Chairman TAUZIN. I thank the gentleman.

I think we have gone through the roster of members who are qualified to ask questions. I want to acknowledge for the record, however, the presence, once again, of Congresswoman Sheila Jackson-Lee, who is not a member of our committee, and, therefore, not entitled to participate with questions but who has been an extraordinary participant through all of these hearing processes on behalf of the citizens of her community who have been so devastated by this collapse.

And again, Congresswoman Lee, we welcome you and thank you for your attendance and your participation, physically and I know emotionally, in these hearings. Thank you.

Let me, before we wrap, put a few questions into the record, Ms. Watkins, that I think are important as well because the answers will tell us a little bit about who was taking responsibility for what was going on and who was not. I want to focus on the gentleman who held the position of Executive Vice President and Chief Risk Officer.

Now, would you describe for us the function of the Chief Risk Officer in the corporation?

Ms. WATKINS. Mr. Buy supervised our credit department.

Chairman TAUZIN. And his name is Rick Buy, right?

Ms. WATKINS. Rick Buy, yes. He supervised our credit department, our risk assessment and control group, and he was in charge of our risk management policy that was presented to the Board each year.

Chairman TAUZIN. So he was—according to our documents—responsible for identifying, quantifying, controlling risk in both Enron's trading activities and their investment opportunities, right?

Ms. WATKINS. Yes.

Chairman TAUZIN. This would include all of these special entities and partnerships that Enron was engaging in, right?

Ms. WATKINS. Yes, that is correct.

Chairman TAUZIN. Now, did you ever have a conversation with him about the precarious financial condition of Enron and its reliance upon these questionable deals to continue to meet the earnings projections?

Ms. WATKINS. I had worked with Mr. Buy during the time period where I was managing the JEDI portfolio. I have also had discussions with him. He was a former co-worker and friend. The week leading up to my meeting with Mr. Lay, Mr. Buy was on vacation, and I actually phoned him. I was trying to use him as a sounding board as well.

I told him a bit about my concerns and that I had a meeting scheduled with Mr. Lay. I asked him if I could fax him my materials to get his opinion about—

Chairman TAUZIN. But did you tell him that, in fact, some of the materials had come from his own shop?

Ms. WATKINS. No. But I just told him I had some memos that I wanted to fax him and have him look at.

Chairman TAUZIN. Did you identify those memos, or explain to him what they might say or—

Ms. WATKINS. I told him I was very concerned about the Raptor transactions, that we had very large accounting issues, and that it was not appropriate to be backstopping these Raptor losses with Enron stock.

Chairman TAUZIN. So you offered to send him all of this. What was his response?

Ms. WATKINS. He said he would rather not see it.

Chairman TAUZIN. Now, he would rather not see it? And his job was the risk officer for the corporation?

Ms. WATKINS. Yes, sir.

Chairman TAUZIN. And so I suppose you didn't send it to him, then?

Ms. WATKINS. No, I did not.

Chairman TAUZIN. So the Chief Risk Officer of the corporation was in a see no evil, hear no evil, speak no evil position?

Ms. WATKINS. It was—

Chairman TAUZIN. He didn't want to see the documents?

Ms. WATKINS. It would appear that would be the case.

Chairman TAUZIN. Now, did he tell you anything about the precarious financial condition of Enron and its reliance upon these deals?

Ms. WATKINS. Mr. Buy expressed the opinion to me, as early as maybe even 1997/1998, that he felt like Enron was one or two

quarters away from disaster. Now, he had different reasons for that, but that was because we were a trading company. Trading companies usually it is hard to predict earnings. You have to depend upon volatility in the marketplace.

And we were so dead set on predicting our earnings, and the street had become accustomed to us predicting our earnings. So he just felt like if we ever missed our earnings targets people, i.e. the analysts and the investing community, would look at us under a microscope and that he was concerned that would put us in in a disastrous position.

Chairman TAUZIN. So here is the Chief Risk Officer who has expressed to you concerns that you may be a quarter away from disaster because of Enron's reliance upon these transactions, who says to you, "Don't send me the documents illustrating your concerns that there are serious problems with these transactions." How did you react to that?

Ms. WATKINS. I was disappointed because I felt like he was in a position to help us disclose these things with Mr. Lay.

Chairman TAUZIN. And you weren't going to get any help at all from him.

Ms. WATKINS. Right.

Chairman TAUZIN. Now, you were part of an investor conference call on October 23. Now, to put it in perspective, this is about the time that you are discussing with Mr. Lay your concerns and bringing them to him attention?

Ms. WATKINS. Well, it was after the earnings release, which talked about the \$1.2 billion shareholder reduction.

Chairman TAUZIN. October 16, right?

Ms. WATKINS. October 16. We had an October 23 investor call that was open to the public, and I just listened in.

Chairman TAUZIN. Right. Now, I understand that Mr. Causey and Mr. Lay were members of that conference call.

Ms. WATKINS. Yes, that is right.

Chairman TAUZIN. And you had a chance to listen in to the conversations. Were the Raptors discussed in that conference call?

Ms. WATKINS. Yes. An analyst asked the question, "Okay. Enron has unwound these Raptor transactions. You have written off the transactions in the third quarter of 2001. If they had never existed at all, what would have been the income statement impact for the year 2000?" And Mr. Causey responded that there would have been little or no impact, because we could have done these transactions elsewhere.

Chairman TAUZIN. Was that a true statement?

Ms. WATKINS. I don't think so, and the Powers Report doesn't think so either.

Chairman TAUZIN. Did Mr. Lay have any comments on that point?

Ms. WATKINS. Well, Mr. Lay parroted Mr. Causey word for word. And I felt like that was a statement he didn't necessarily know, and it was unwise to parrot the Chief Accounting Officer on that statement.

Chairman TAUZIN. Now, here Mr. Causey and Mr. Lay are on a conference call with investors telling them that if the Raptors had not been a part of Enron there would have been no impact on the

income statement. You believe that to be false. Did you express your concerns about these statements following that conversation?

Ms. WATKINS. Well, I did go into Ms. Olson's office, and I said, "You need to warn Mr. Lay that he should not make comments like that unless he knows it to be a fact."

Mr. TAUZIN. Did you make notes of those conversations?

Ms. WATKINS. Yes, I did.

Chairman TAUZIN. Have you supplied those notes to the committee?

Ms. WATKINS. I have them. I believe my attorney was going to supply them later.

Chairman TAUZIN. I would appreciate it if you would supply those notes that we might have them as part of the record. Without objection, that will be so ordered. One final thing I want to get on the record, Ms. Watkins, that I think is awfully important, too. Once you were identified as the author of the anonymous letter you first sent, did any of the executive offices of Enron, of the 50th floor up, ever contact you to discuss with you what you had written? Did anybody praise you for coming forward from the 50th floor? Was there a difference between the reaction of Enron employees below the 50th floor, as opposed to those in charge on the 50th floor and above?

Ms. WATKINS. Well, the reaction from the employees that have been laid off has been just fantastic. They are very supportive. And then, I would say from 90 percent of the employees that are still there the reaction is also very positive. From the 50th floor, I have only had one person give me an "atta girl" so to speak, and that was Mr. Ray Bowen.

Chairman TAUZIN. One final thing. This is very important, obviously, for you and for us. Will you agree to inform us immediately if, as a result of your coming forward to testify before this committee, and your willingness to come forward to Mr. Lay with your concerns as you have, if any retaliatory action is threatened or proposed or suggested in terms of your employment and your position with Enron?

Ms. WATKINS. Yes, sir.

Chairman TAUZIN. All right. We thank you for that, and we assure you we will be watching that extraordinarily carefully.

Are there any requests for additional questions?

Mr. DEUTSCH. Thank you, Mr. Chairman.

Chairman TAUZIN. The gentleman from Florida.

Mr. DEUTSCH. Just a couple of very specific followups. In your discussion with staff yesterday, you stated that you believed that Enron should have taken additional writeoffs beyond those in the November 8 restatement. Could you explain that?

Ms. WATKINS. Well, the Raptor vehicles that I wrote about, that were all associated with LJM2, they were unwound and written off in the third quarter of 2001. And they have yet to be restated. Those should be unwound as if they never existed, and they should restate 2000 results in the first quarter of 2001.

Mr. DEUTSCH. What is the significance of taking additional writeoffs, especially since Enron is now in bankruptcy proceedings?

Ms. WATKINS. It is the appropriate thing to do for a public company. We are still publicly traded and under SEC rules.

Mr. DEUTSCH. And just a couple very quick followup questions. Is your sense that there was complicity with the auditors, Arthur Andersen, and, in a sense, with Vinson & Elkins as well, or was there basically fraud to both your accountants and your attorneys? In other words, was this a cooperative effort with Enron management to basically come up with these ideas? Or was the representation to the accountants and the attorneys misinformation?

Ms. WATKINS. It is my opinion that Enron transaction accountants, most notably Ben Glisan, helped come up with the structure and come up with the support for the structure, and then convinced Andersen that it worked.

Mr. DEUTSCH. So they knew—what you are really saying is, in your opinion, they knew—it was not that Enron was holding back what the actual structure of the transaction was.

Ms. WATKINS. Oh, I think they understood the structure, yes.

Mr. DEUTSCH. And the issues in terms of Enron being the guarantor and all of those issues?

Ms. WATKINS. Yes.

Mr. DEUTSCH. You mentioned something, obviously, very disturbing. That you, in fact, felt fear of your personal safety. Did you do anything to follow up based on that fear?

Ms. WATKINS. I did actually talk with some Enron security personnel. I was a little bit concerned that I had—in effect, Mr. Fastow potentially lost his job because, you know, I brought up these concerns. And I actually talked to Enron security personnel about whether I should do anything different, more concern that Mr. Fastow might be vindictive.

Mr. DEUTSCH. Did they give you any advice to take specific action?

Ms. WATKINS. Just general security advice on—

Mr. DEUTSCH. Did Mr. Fastow exhibit any, you know, violent behavior—

Ms. WATKINS. No.

Mr. DEUTSCH. [continuing] erratic behavior that would lead—

Ms. WATKINS. No. It is just I did not feel very much support. I did feel like I was a little bit of a lone fish swimming upstream, and so it starts to wear on you that it is you against them. And I was a little bit concerned.

Mr. DEUTSCH. Are you convinced that Mr. Baxter's death is a suicide, or is it possible that there was another, you know, more nefarious activity?

Ms. WATKINS. I am sure the authorities have reported that correctly.

Mr. DEUTSCH. Is there any doubt in your mind?

Ms. WATKINS. Probably not.

Mr. DEUTSCH. Doubt in your mind about that it was a suicide?

Ms. WATKINS. Yes. I believe it probably was.

Mr. DEUTSCH. If you say "probably," there is doubt.

Ms. WATKINS. It is just a sensitive topic that I would rather not comment on.

Mr. DEUTSCH. Okay. Let me—the last thing, is submit for the record a list of transactions of Enron management. This is something we talked about previously. It is actually a list of trans-

actions of sales of Enron stock through the end of last year, totaling \$1.1 billion.

Chairman TAUZIN. Without objection, the document will be part of the record.

Mr. DEUTSCH. Total of 17 million shares. You know, obviously, none of these shares were sold at zero, at a dollar, at \$5, at \$10. And I guess, you know, these people were wise enough or lucky enough to sell stocks before the facts that you have described and that we have uncovered became public.

And it is either they were all very lucky or, in fact, they were trading on inside information, as it appears from the outside looking in.

Thank you, Mr. Chairman.

Chairman TAUZIN. Thank you very much.

I would also ask that the record include the transcript of the conference call referred to in our recent questions as part of the record. Without objection, it is so ordered.

The gentleman, Mr. Stupak, is recognized for questions.

Mr. STUPAK. Thank you, Mr. Chairman. Just a few questions, if I may.

But before I do that, I want to thank you, Mr. Chairman, Mr. Dingell, Mr. Deutsch, Mr. Greenwood. We have had about five or six hearings now. They have been good hearings. We have all been working together on this debacle, if you will, and things have gone quite well. And I would also like to mention our personal staffs, especially committee staff. They work long and hard to help get us prepared and work—

Chairman TAUZIN. Will the gentleman yield?

Mr. STUPAK. Sure.

Chairman TAUZIN. There is a personal interest story. I know he is going to get upset with me for saying it, but the gentleman who is in charge of our investigative staff, Mark Paoletta recently went through lung surgery, serious lung surgery, a surgery he was attempting to put off while this investigation was proceeding. And I had to threaten to fire him to make him—in fact, go to his father and threaten to fire him if he didn't go to the hospital and take care of his lung surgery. He took care of it this weekend, and he is back to work already.

The staff has done marvelous work, and Mr. Paoletta is particularly to be accorded our appreciation for his sacrifice of self to get this job done. And we thank you, Mark.

I thank the gentleman.

Mr. STUPAK. And we all appreciate Mark being back and helping throughout this whole ordeal that we have been going through.

Ms. Watkins, something has been sort of bugging me, and I have asked this question before and never really got an answer. Maybe you can shed some light on it. In one of the transactions, Mr. Copper, in a very short period of time, made like about \$2 million. And the records and everything we have seen says there is no reason why he should make \$2 million in about 2 months, no indication of what was the consideration for the compensation.

But yet he made that money, and I believe it was on the Southampton deal, and maybe it was on the unwinding of Chewco or something like that. Just how would someone get paid \$2 million

in this whole deal? I mean, how would you handle that on the books?

Ms. WATKINS. All I know about those transactions were what I have read in the Powers Report. And I would probably agree with the Powers Report that it does raise questions when you can have such large returns in such a short period of time.

Mr. STUPAK. What books handled that loss? The Enron books or Southampton? Would you know?

Ms. WATKINS. Well, if Enron was purchasing an interest—

Mr. STUPAK. Right.

Ms. WATKINS. [continuing] for instance, a Chewco interest or—

Mr. STUPAK. Which they are supposed to have been.

Ms. WATKINS. If you are buying back an asset, that goes on your books at the price you paid.

Mr. STUPAK. Paid.

Ms. WATKINS. So it is not an income statement item. It is not necessarily a loss for Enron and a gain for Mr. Copper. It could be an asset purchase by Enron that provided a gain to Mr. Copper.

Mr. STUPAK. Sounds like just the way to pass through some money real quickly, right? After you did your memo and Vinson & Elkins reviewed—did their investigation if you will, on or about October 15, they said that a broader investigation was not necessary and it was just bad cosmetics, and we can see our way through that.

But then, the very next day, on October 16, is when Enron announced that, due to accounting errors and restructuring related to transactions involving LJM2, it was revising its shareholder equity numbers downward by \$1.2 billion and posting a third quarter loss in excess of \$500 million. And then, it went on, and you didn't believe at that time, even despite the October 16 announcement, that the whole story had been told about the looming financial and accounting crisis involving all of these partnerships and these PSEs.

And then, on November 8, Enron stated its intent to redo their financial statements for the past 4 years due to additional accounting problems, again, with the LJM and Chewco partnership.

Now, despite all of these actions, October 15 and November 8, do you believe that we have learned all of the problems that are there, or are there still some things that you believe must be done to really come clean here with the American people and the stock and faith that people had in this company called Enron?

Ms. WATKINS. The only people at Enron saying there is a problem are the people hired from the Powers Report and myself.

Mr. STUPAK. So despite all of the restatement of accounting and restatement of financial statements, again, the Powers Report and you, so—

Ms. WATKINS. Well, the Raptor transactions have not been restated yet.

Mr. STUPAK. So what concerns would you still have, then, about the transparency or the accuracy of Enron's financial statements besides the Raptor hasn't been fully restated?

Ms. WATKINS. Well, the Raptor transactions need to be fully restated and—

Mr. STUPAK. Anything else?

Ms. WATKINS. Well, there was another memo written by an employee from Enron Energy Services. It was disclosed in the press. I think it outlined how Enron solved its EES mark-to-market valuation issues that I raised at the first part of my anonymous letter. And that needs to be looked at. That is segment reporting. I am sure they actually bore the loss in the wholesale group, but that segment reporting was important to Enron in 2001.

Mr. STUPAK. Well, it seems like the October 16 reevaluation if you will was a result of your efforts, and it is our understanding between October 16 and November 8 you continued to push Ken Lay and others to do further restatements. So maybe after your testimony today we can expect some more restatements from Enron or some coming clean on Raptor or something like that. Hopefully, because we really want to get to the bottom of this. And what are all of the problems here? Let us get it on the table. They are in a bankruptcy situation, and we want to get this thing moved on.

That brings me to my next question. In the minutes, and throughout some testimony and some of the flowcharts we have seen throughout here, there is mention of Enron Europe, the Southern Cone, which would be South America, Brazil, Australia, Japan. If we are seeing all of these problems here in this country related to Enron, do you know of any problems that others are seeing overseas? What has happened over there in Australia?

In Brazil, they were particularly concerned about the devaluation of their currency there and how it would affect Enron. So the Enron collapse, how has it affected things overseas? If you know.

Ms. WATKINS. I am not—I was in Enron International, but most of the international assets are hard assets. They are accrual-based assets. They are fairly traditional. In a country like Brazil that has devaluation concerns, it might mean that we don't achieve the U.S. dollar cash price that we paid, but I don't know of anything that would indicate any kind of financial statement manipulation related to those assets.

Mr. STUPAK. I am looking at your memo. It is dated October 30, 2001, 4:45. I am on the second page. It looks like it is Tab Number 21. And I am looking on the bottom of page 2, it says, "Note." Are you with me?

Ms. WATKINS. Yes.

Mr. STUPAK. Okay. It says, "Note: After restatement, the good news is that our core trading business is solid with strong numbers to report. The bad news, EBS was losing big money in 2000. The big losses then start until 2001, and EES did not start making a profit in 2000." So how would—were the shareholders ever made aware of any of this?

Ms. WATKINS. My concern when I was making this point was that Enron Broadband and Enron Energy Services were our growth vehicles. They were supposedly one of the reasons why we were enjoying a high PE multiple. And we did finally report to investors that EBS was losing money, large amounts of money in 2001. But the Raptor hedge on Avici made EBS look like it had only lost \$50- or \$60 million in 2000 when actually it was more like \$250 million.

And it was very important to Enron that we announce that Enron Energy Services was profitable in 2000. Without the New Power hedges, EES was not profitable in 2000. This would have

significantly impacted our PE multiples and our stock price in the year 2000.

Mr. STUPAK. So it is fair to say if—if you started losing money in 2000, it really wasn't reported until 2001. So you probably had—you have at least 12 months. So, basically, the shareholders weren't told the truth here what was going on with this situation. Is that a fair statement?

Ms. WATKINS. That is a fair statement.

Mr. STUPAK. Okay. With that, Mr. Chairman, I have nothing further. Thank you.

And thank you again.

Chairman TAUZIN. I thank you very much, Mr. Stupak.

As we conclude, I note, Ms. Watkins, that on that same memo you make the point that Lay should meet with top SEC officials, and that Key Lay and Enron needed to support one of the SEC's long-term objectives of requiring that the "Big 5" accounting firms rotate off their large clients on a regular basis as short as 3 years. Do you stand by that recommendation?

Ms. WATKINS. Yes, I do. As an investor in the U.S. stock market, I would feel a lot more comfortable knowing that public companies had to rotate their accounting firms every 3 years.

Chairman TAUZIN. It is a recommendation we receive from a number of sources as we go forward.

Let me make several observations. First of all, that you sort of stumbled on the Raptors. You are not here saying that is all that may have been wrong. There may be other things in other transactions that are you not aware of that may need some inquiry. Is that correct?

Ms. WATKINS. Yes, sir.

Chairman TAUZIN. Second, that as I said at the beginning of this hearing, we are going to try to move as rapidly as we can from this inquiry into an actual examination of solutions. And the committees are beginning to do that. One of them met today; one of them met yesterday. And Mr. Greenwood and Mr. Stearns, in fact, have been asked by the committee to actually begin putting a set of recommendations together for the committee to look at.

And your thoughts, as you have been asked before by some members, in regards to your observations and recommended changes we might make, are certainly welcome, and we would appreciate it.

Ms. Watkins, your testimony stands for itself. It doesn't need a whole lot of elaboration or editorial comment. But I do want to make one. And that is that your testimony, your activities in regard to Enron, actually call all of us to examine the notion of corporate loyalty. There are some, I assume, who believe corporate loyalty is protecting the corporation against all harm, even when it is doing something wrong.

You have demonstrated, for us, a different definition of corporate loyalty, a different definition of fiduciary responsibility to a corporation, that includes responsibility to its shareholders and investors. And I want to compliment you for that.

There are mothers and fathers listening to these hearings, and who have heard your testimony, and now have an experience, I think, upon which to hopefully teach their sons and daughters who are going to work for American corporations about the notion of

corporate loyalty that you bring to the table this morning, the notion that corporate loyalty means owning up to mistakes for the sake of the proper relationship with investors and consumers, and confronting them directly, and reporting them and dealing with them forthrightly.

Would that the last clear chance you gave the leadership of Enron been accepted and taken, apparently that didn't happen, but you at least stood for that proposition. And, again, I commend you for that. I hope that sons and daughters of American citizens follow your example, frankly, and adopt your concept of corporate loyalty as a mantra.

As I said, we are learning from these hearings. I think corporate America is learning from these hearings. And I truly believe, as Mr. Greenwood does, that when we complete them—and our work is not yet finished—but when we complete them we will together, Democrats and Republicans on this committee, be able to propose a set of reforms, together with the reforms that I know corporate America itself is talking about instituting, and agencies of our government are talking about instituting, that is going to build better, clearer, more responsible lines of communication and information and disclosure and investor confidence in this country.

If that is a result of this mess, then perhaps our country will be much better for it in the end, and you will have contributed mightily to that process. For that, I thank you.

And unless there is any other business to come before the committee, the Chair announces that the record will stay open for 30 days.

Ms. Watkins, your testimony was under oath, of course. And if you and your attorney will carefully review it, if there are any additional comments or clarifications or additions you want to make to the record, the record is open for 30 days. We may have additional questions we would like to submit to you in writing to which you might respond.

We will be in touch with you in that regard. Again, thank you for your extraordinary cooperation and for your contributions.

The hearing stands adjourned.

[Whereupon, at 4:06 p.m., the subcommittee was adjourned.]

[Additional material submitted for the record follows:]

LJM2 APPROVAL SHEET

1

This Approval Sheet should be used to approve Enron's participation in any transactions involving LJM Cayman, L.P. ("LJM1") or LJM2 Co-Investment, L.P. ("LJM2"). LJM1 and LJM2 will collectively be referred to as "LJM". This Approval Sheet is in addition to (not in lieu of) any other Enron approvals that may be required.

GENERAL

Deal name: Raptor

Date Approval Sheet completed: April 18, 2000

Enron person completing this form: Trushar Patel

Expected closing date: May 4, 2000

Business Unit: Enron Corp.

Business Unit Originator: Ben Glisan

This transaction relates to ☐ LJM1 and/or ☒ LJM2.

This transaction is ☐ a sale by Enron ☐ a purchase by Enron ☐ a co-sale with Enron ☐ a co-purchase with Enron and/or ☒ other: creation of hedging structure

Person(s) negotiating for Enron: Ben Glisan

Person(s) negotiating for LJM: Michael Kopper

Legal counsel for Enron: Vinson & Elkins

Legal counsel for LJM: Kirkland & Ellis

DEAL DESCRIPTION

Talon I LLC ("Talon") is a special purpose entity organized for the purpose of entering into certain derivative transactions. LJM2, through its 100% voting control of Talon, has the unilateral ability to make the investment decisions for Talon and is not contractually obligated to execute any derivative transactions with Enron. LJM2 will execute derivative transactions with Harrier I LLC ("Harrier"), a wholly-owned subsidiary of Enron, to the extent those investment decisions are aligned with LJM2's investment objectives. Enron, through Harrier, will offer LJM2 the opportunity to execute derivative instruments relating to both public and private energy and telecommunication investments made by Enron.

ECONOMICS

Talon's distributions to equity holders will be limited by earnings at Talon. To the extent there are earnings and sufficient cash to distribute, distributions will be made according to the following waterfall:

- First, \$41 million to LJM2
- Second, distributions as necessary until LJM2 receives a 30% IRR over the term of the structure (unless the IRR was achieved through the \$41 million distribution above)
- Third, 100% to the special limited partnership interest, Harrier I LLC, a wholly-owned subsidiary of Enron

DASH

See attached.

VEL 00129

LJM APPROVAL SHEET

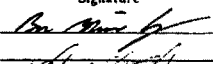
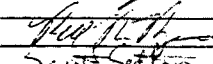
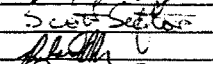

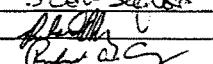
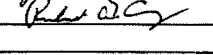
Page 2

ISSUES CHECKLIST

1. Sale Options
 - a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected:
☐ Condor ☐ JEDI II ☐ Third Party ☐ Direct Sale. Please explain: Not a sale of an asset by Enron
 - b. Will this transaction be the most beneficial alternative to Enron? ☒ Yes ☐ No. If no, please explain: _____
 - c. Were any other bids/offers received in connection with this transaction? ☐ Yes ☒ No. Please explain: Private structured finance transaction
2. Prior Obligations
 - a. Does this transaction involve a Qualified Investment (as defined in the JEDI II partnership agreement)? ☐ Yes ☒ No. If yes, please explain how this issue was resolved: _____
 - b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? ☐ Yes ☒ No. If yes, please explain: _____
3. Terms of Transaction
 - a. What are the benefits (financial and otherwise) to Enron in this transaction? ☐ Cash flow ☐ Earnings
☒ Other: Ability to hedge mark-to-market exposure on investments in publicly and privately held companies
 - b. Was this transaction done strictly on an arm's-length basis? ☒ Yes ☐ No. If no, please explain: _____
 - c. Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron?
☐ Yes ☒ No. If yes, please explain: _____
 - d. Are all LJM expenses and out-of-pocket costs (including legal fees) being paid by LJM? ☐ Yes ☒ No. If no, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to items 1.b. and 3.b. above? ☒ Yes ☐ No.
4. Compliance
 - a. Will this transaction require disclosure as a Certain Transaction in Enron's proxy statement? ☒ Yes ☐ No.
 - b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee?
☐ Yes ☒ No.
 - c. Have all Enron employees' involvement in this transaction on behalf of LJM been waived by Enron's Office of the Chairman in accordance with Enron's Conduct of Business Affairs Policy? ☒ Yes ☐ No. If no, please explain: _____
 - d. Was this transaction reviewed and approved by Enron's Chief Accounting Officer? ☒ Yes ☐ No.
 - e. Was this transaction reviewed and approved by Enron's Chief Risk Officer? ☒ Yes ☐ No.
 - f. Has the Audit Committee of the Enron Corp. Board of Directors reviewed all Enron/LJM transactions within the past twelve months? ☐ Yes ☒ No. (The Audit Committee has not held a meeting since LJM2's formation.) Have all recommendations of the Audit Committee relating to Enron/LJM transactions been taken into account in this transaction? ☐ Yes ☒ No.

VEL 00130

LJM APPROVAL SHEET
Page 3

APPROVALS	Name	Signature	Date
Business Unit	Ben Glisan		6-12-00
Business Unit Legal			
Enron Corp. Legal	Rex Rogers		5-24-00
Global Finance Legal	Scott Sefton		5-22-00
RAC	Rick Buy 		6-12-00
Accounting	Rick Causey		5-22-00
Executive	Jeff Skilling		

VEL 00131

ENRON DEAL SUMMARY

DEAL NAME: Raptor Originated: Enron Corp. Expected Closing Date: 4/18/00 Expected Funding Date: 5/04/00	Date Completed: April 18, 2000 Investment Analyst: Chris Lochr Investment Type: Equity
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INVESTMENT	
LJM2 Capital Commitment	\$ 30,000,000

DEAL DESCRIPTION

Talon I LLC ("Talon") is a special purpose entity organized for the purpose of entering into certain derivative transactions. LJM2, through its 100% voting control of Talon, has the unilateral ability to make the investment decisions for Talon and is not contractually obligated to execute any derivative transactions with Enron. LJM2 will execute derivative transactions with Harrier I LLC ("Harrier"), a wholly-owned subsidiary of Enron, to the extent those investment decisions are aligned with LJM2's investment objectives. Enron, through Harrier, will offer LJM2 the opportunity to execute derivative instruments relating to both public and private energy and telecommunication investments made by Enron.

TRANSACTION SUMMARY

- On April 21, 2000, LJM2 will purchase 100% of the voting interest in Talon for \$30,000,000
- Talon is a bankruptcy remote, special purpose vehicle that will be capitalized with:
 - LJM2's capital investment
 - A series of forward sales on Enron shares (\$500 million of gross value but \$350 million of net value after a 30% liquidity discount has been ascribed given the restrictions imposed on the underlying shares) resulting in ultimate ownership by Talon of Enron common stock
 - The sale of puts on [7 million] Enron shares with a strike of [\$57.50], a maturity in [six months] from close and a premium due of [\$6] per share.
- In exchange for the above capitalization, Talon will provide Harrier: (i) a \$400 million note whose principal is convertible into derivatives, and (ii) a special limited partnership interest in Talon initially valued at \$1,000.
- To limit Talon's exposure to the mark-to-market movements of the underlying derivative transactions, Talon and Harrier agree to limit the notional amount of swaps and premiums paid as follows: (i) up to \$1.5 billion notional value of at-the-money swaps, (ii) up to \$400 million of net premiums on other derivative transactions, and (iii) up to \$1 billion of loss on premium paid derivatives.
- LJM2 will have a fair market value put for its membership interest in Talon that allows LJM2 to put its interest back to Harrier in the event that LJM2 has not received the greater of \$41 million or a 30% IRR by October 31, 2000. Enron has provided support for Harrier's financial obligation under such an event in the form of a guaranty.
- At the maturity of the structure, Talon will liquidate the excess value, if any, of the Enron shares under the forward sales over the derivative losses, if any, at Talon and any principal outstanding on the Talon note. The excess proceeds, if any, will be distributed to LJM2 and Harrier in accordance with their capital accounts and the distribution waterfall.

INVESTMENT RETURN SUMMARY

Base Case Return

It is expected that Talon will have earnings and cash sufficient to distribute \$41 million to LJM2 within six months, yielding an annualized return on investment to LJM2 of 76.8%

Distributions

Talon's distributions to equity holders will be limited by earnings at Talon. To the extent there are earnings and sufficient cash to distribute, distributions will be made according to the following waterfall:

- First, \$41 million to LJM2
- Second, distributions as necessary until LJM2 receives a 30% IRR over the term of the structure (unless the IRR was achieved through the \$41 million distribution above)
- Third, 100% to the special limited partnership interest, Harrier I LLC, a wholly-owned subsidiary of Enron

VEL 00132

Fair Market Value Put

In the event that LJM2 has not received the greater of \$41 million or a 30% IRR on its investment by October 31, 2000, LJM2 will have a fair market value put whereby LJM2 can put its interest in Talon back to Harrier. The fair market value of the membership interest is determined largely by Enron's stock price and is summarized below:

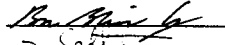
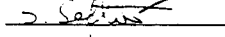
Enron Stock Price	Fair Market Put Value	LJM2 IRR
[\$57.50]	\$41.0 million	76.8%
[\$48.95]	\$34.5 million	30.0%
[\$48.35]	\$30.0 million	0.0%

Expenses

Enron has agreed to cover all of LJM2's accounting and legal expenses related to this transaction. Enron will cover expenses related to formation of the structure as well as ongoing expenses.

VEL 00133

CONFIDENTIAL

APPROVALS	Name	Signature	Date
Business Unit Originator	<u>Ben Glisan</u>	<u></u>	<u>6-12-00</u>
Business Unit Legal	<u>Scott Hatten</u>	<u></u> U	<u>5-23-00</u>

VEL 00134

CONFIDENTIAL**LJM2 APPROVAL SHEET**

This Approval Sheet should be used to approve Enron's participation in any transactions involving LJM Cayman, L.P. ("LJM1") or LJM2 Co-Investment, L.P. ("LJM2"). LJM1 and LJM2 will collectively be referred to as "LJM". This Approval Sheet is in addition to (not in lieu of) any other Enron approvals that may be required.

GENERAL

Deal name: Raptor II

Date Approval Sheet completed: June 26, 2000

Enron person completing this form: Trushar Patel

Expected closing date: June 30, 2000

Business Unit: Enron Corp.

Business Unit Originator: Ben Glisan

This transaction relates to ☐ LJM1 and/or ☒ LJM2.

This transaction is ☐ a sale by Enron ☐ a purchase by Enron ☐ a co-sale with Enron ☐ a co-purchase with Enron and/or ☒ other: creation of hedging structure.

Person(s) negotiating for Enron: Ben Glisan

Person(s) negotiating for LJM: Michael Kopper

Legal counsel for Enron: Vinson & Elkins

Legal counsel for LJM: Kirkland & Ellis

DEAL DESCRIPTION

Timberwolf I LLC ("Timberwolf") is a special purpose entity organized for the purpose of entering into certain derivative transactions. LJM2, through its 100% voting control of Timberwolf, has the unilateral ability to make the investment decisions for Timberwolf and is not contractually obligated to execute any derivative transactions with Enron. LJM2 will execute derivative transactions with Grizzly I LLC ("Grizzly"), a wholly-owned subsidiary of Enron, to the extent those investment decisions are aligned with LJM2's investment objectives. Enron, through Grizzly, will offer LJM2 the opportunity to execute derivative instruments relating to both public and private energy and telecommunication investments made by Enron.

ECONOMICS

Timberwolf's distributions to equity holders will be limited by earnings at Timberwolf. To the extent there are earnings and sufficient cash to distribute, distributions will be made according to the following waterfall:

- First, \$41 million to LJM2
- Second, distributions as necessary until LJM2 receives a 30% IRR over the term of the structure (unless the IRR was achieved through the \$41 million distribution above)
- Third, 100% to the special limited partnership interest, Grizzly I LLC, a wholly-owned subsidiary of Enron

DASH

See attached.

VEL 00146

CONFIDENTIAL

ISSUES CHECKLIST

1. Sale Options
- a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected:
☐Condor ☐JEDI II ☐Third Party ☐Direct Sale. Please explain: Not a sale of an asset by Enron
- b. Will this transaction be the most beneficial alternative to Enron? ☒Yes ☐No. If no, please explain: _____
- c. Were any other bids/offers received in connection with this transaction? ☐Yes ☒No. Please explain: Private structured finance transaction
2. Prior Obligations
- a. Does this transaction involve a Qualified Investment (as defined in the JEDI II partnership agreement)? ☐Yes ☒No. If yes, please explain how this issue was resolved: _____
- b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? ☐Yes ☒No. If yes, please explain: _____
3. Terms of Transaction
- a. What are the benefits (financial and otherwise) to Enron in this transaction? ☐Cash flow ☐Earnings
☒Other: Ability to hedge mark-to-market exposure on investments in publicly and privately held companies
- b. Was this transaction done strictly on an arm's-length basis? ☒Yes ☐No. If no, please explain: _____
- c. Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron?
☐Yes ☒No. If yes, please explain: _____
- d. Are all LJM expenses and out-of-pocket costs (including legal fees) being paid by LJM? ☐Yes ☒No. If no, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to items 1.b. and 3.b. above? ☒Yes ☐No.
1. Compliance
- a. Will this transaction require disclosure as a Certain Transaction in Enron's proxy statement? ☒Yes ☐No.
- b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee?
☐Yes ☒No.
- c. Have all Enron employees' involvement in this transaction on behalf of LJM been waived by Enron's Office of the Chairman in accordance with Enron's Conduct of Business Affairs Policy? ☒Yes ☐No. If no, please explain: _____
- d. Was this transaction reviewed and approved by Enron's Chief Accounting Officer? ☒Yes ☐No.
- e. Was this transaction reviewed and approved by Enron's Chief Risk Officer? ☒Yes ☐No.
- f. Has the Audit Committee of the Enron Corp. Board of Directors reviewed all Enron/LJM transactions within the past twelve months? ☐Yes ☒No. (The Audit Committee has not held a meeting since LJM2's formation.) Have all recommendations of the Audit Committee relating to Enron/LJM transactions been taken into account in this transaction? ☒Yes ☐No.

* The transaction has been approved by the Exec. Committee of EWE's Board of Directors.

VEL 00147

IJM APPROVAL SHEET
Page 3

CONFIDENTIAL

APPROVALS	Name	Signature	Date
Business Unit	<i>SMS</i> Ben Glisan	<i>Ben Glisan</i>	6-28-02
Business Unit Legal			
Enron Corp. Legal	Rex Rogers	<i>Rex Rogers</i>	7-14-02
Global Finance Legal	Scott Sefton	<i>Scott Sefton</i>	6/28/00
RAC	Rick Buy	<i>Rick Buy</i>	7/10/02
Accounting	Rick Causey	<i>Rick Causey</i>	6/23/00
Executive	Jeff Skilling		

ENRON DEAL SUMMARY

CONFIDENTIAL

DEAL NAME: Raptor II	Date Completed: June 26, 2000
Originated: Enron Corp.	Investment Analyst: Trushar Patel
Expected Closing Date: 6/30/00	Investment Type: Equity
Expected Funding Date: 7/6/00	

INVESTMENT	
LJM2 Capital Commitment	\$ 30,000,000

DEAL DESCRIPTION

Timberwolf I LLC ("Timberwolf") is a special purpose entity organized for the purpose of entering into certain derivative transactions. LJM2, through its 100% voting control of Timberwolf, has the unilateral ability to make the investment decisions for Timberwolf and is not contractually obligated to execute any derivative transactions with Enron. LJM2 will execute derivative transactions with Grizzly I LLC ("Grizzly"), a wholly-owned subsidiary of Enron, to the extent those investment decisions are aligned with LJM2's investment objectives. Enron, through Grizzly, will offer LJM2 the opportunity to execute derivative instruments relating to both public and private energy and telecommunication investments made by Enron.

TRANSACTION SUMMARY

- On June 27, 2000, LJM2 will purchase 100% of the voting interest in Timberwolf for \$30,000,000
- Timberwolf is a bankruptcy remote, special purpose vehicle that will be capitalized with:
 - LJM2's capital investment
 - A series of forward sales on Enron shares (\$500 million of gross value but \$350 million of net value after a 34.8% liquidity discount has been ascribed given the restrictions imposed on the underlying shares) resulting in ultimate ownership by Timberwolf of Enron common stock
 - The sale of puts on [7 million] Enron shares with a strike of [\$57.50], a maturity in [six months] from close and a premium due of [\$5.5] per share.
- In exchange for the above capitalization, Timberwolf will provide Grizzly: (i) a \$400 million note whose principal is convertible into derivatives, and (ii) a special limited partnership interest in Timberwolf initially valued at \$1,000.
- To limit Timberwolf's exposure to the mark-to-market movements of the underlying derivative transactions, Timberwolf and Grizzly agree to limit the notional amount of swaps and premiums paid as follows: (i) up to \$1.5 billion notional value of at-the-money swaps, (ii) up to \$400 million of net premiums on other derivative transactions, and (iii) up to \$1 billion of loss on premium paid derivatives.
- LJM2 will have a fair market value put for its membership interest in Timberwolf that allows LJM2 to put its interest back to Grizzly in the event that LJM2 has not received the greater of \$41 million or a 30% IRR by December 27, 2000. Enron has provided support for Grizzly's financial obligation under such an event in the form of a guaranty.
- At the maturity of the structure, Timberwolf will liquidate the excess value, if any, of the Enron shares under the forward sales over the derivative losses, if any, at Timberwolf and any principal outstanding on the Timberwolf note. The excess proceeds, if any, will be distributed to LJM2 and Grizzly in accordance with their capital accounts and the distribution waterfall.

INVESTMENT RETURN SUMMARY*Base Case Return*

It is expected that Timberwolf will have earnings and cash sufficient to distribute \$41 million to LJM2 within six months.

Distributions

Timberwolf's distributions to equity holders will be limited by earnings at Timberwolf. To the extent there are earnings and sufficient cash to distribute, distributions will be made according to the following waterfall:

- First, \$41 million to LJM2
- Second, distributions as necessary until LJM2 receives a 30% IRR over the term of the structure (unless the IRR was achieved through the \$41 million distribution above)
- Third, 100% to the special limited partnership interest, Grizzly I LLC, a wholly-owned subsidiary of Enron

VEL 00149

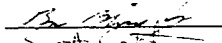
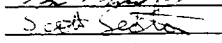
~~CONFIDENTIAL~~*Fair Market Value Put*

In the event that LJM2 has not received the greater of \$41 million or a 30% IRR on its investment by December 27, 2000, LJM2 will have a fair market value put whereby LJM2 can put its interest in Timberwolf back to Grizzly. The fair market value of the membership interest is determined largely by Enron's stock price.

Expenses

Enron has agreed to cover all of LJM2's accounting and legal expenses related to this transaction. Enron will cover expenses related to formation of the structure as well as ongoing expenses.

CONFIDENTIAL

APPROVALS	Name	Signature	Date
Global Finance Originator	Ben Glisan		6/28/00
Global Finance Legal	Scott Sefton		6/28/00

LJM2 APPROVAL SHEET

This Approval Sheet should be used to approve Enron's participation in any transactions involving LJM Cayman, L.P. ("LJM1") or LJM2 Co-Investment, L.P. ("LJM2"). LJM1 and LJM2 will collectively be referred to as "LJM". This Approval Sheet is in addition to (not in lieu of) any other Enron approvals that may be required.

GENERAL

Deal name: Raptor IV

Date Approval Sheet completed: September 11, 2000

Enron person completing this form: Trushar Patel

Expected closing date: September 11, 2000

Business Unit: Enron Corp.

Business Unit Originator: Ben Glisan

This transaction relates to ☐LJM1 and/or ☒LJM2.

This transaction is ☐ a sale by Enron ☐ a purchase by Enron ☐ a co-sale with Enron ☐ a co-purchase with Enron and/or ☒ other: creation of hedging structure.

Person(s) negotiating for Enron: Ben Glisan

Person(s) negotiating for LJM: Michael Kopper

Legal counsel for Enron: Vinson & Elkins

Legal counsel for LJM: Kirkland & Ellis

DEAL DESCRIPTION

Bobcat LLC ("Bobcat") is a special purpose entity organized for the purpose of entering into certain derivative transactions. LJM2, through its 100% voting control of Bobcat, has the unilateral ability to make the investment decisions for Bobcat and is not contractually obligated to execute any derivative transactions with Enron. LJM2 will execute derivative transactions with Roadrunner LLC ("Roadrunner"), a wholly-owned subsidiary of Enron, to the extent those investment decisions are aligned with LJM2's investment objectives. Enron, through Roadrunner, will offer LJM2 the opportunity to execute derivative instruments relating to both public and private energy and telecommunication investments made by Enron.

ECONOMICS

Bobcat's distributions to equity holders will be limited by earnings at Bobcat. To the extent there are earnings and sufficient cash to distribute, distributions will be made according to the following waterfall:

- First, \$41 million to LJM2
- Second, distributions as necessary until LJM2 receives a 30% IRR over the term of the structure (unless the IRR was achieved through the \$41 million distribution above)
- Third, 100% to the special limited partnership interest, Roadrunner I LLC, a wholly-owned subsidiary of Enron

DASH

See attached.

VEL 00179

LJM APPROVAL SHEET

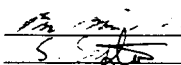
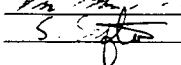
Page 2

ISSUES CHECKLIST

1. Sale Options
 - a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected:
☐ Condor ☒ JEDI II ☐ Third Party ☐ Direct Sale. Please explain: Not a sale of an asset by Enron
 - b. Will this transaction be the most beneficial alternative to Enron? ☒ Yes ☐ No. If no, please explain: _____
 - c. Were any other bids/offers received in connection with this transaction? ☐ Yes ☒ No. Please explain: Private structured finance transaction
2. Prior Obligations
 - a. Does this transaction involve a Qualified Investment (as defined in the JEDI II partnership agreement)? ☐ Yes ☒ No. If yes, please explain how this issue was resolved: _____
 - b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? ☐ Yes ☒ No. If yes, please explain: _____
3. Terms of Transaction
 - a. What are the benefits (financial and otherwise) to Enron in this transaction? ☐ Cash flow ☐ Earnings
☒ Other: Provide potential liquidity for a commodity risk management business.
 - b. Was this transaction done strictly on an arm's-length basis? ☒ Yes ☐ No. If no, please explain: _____
 - c. Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron?
☐ Yes ☒ No. If yes, please explain: _____
 - d. Are all LJM expenses and out-of-pocket costs (including legal fees) being paid by LJM? ☐ Yes ☒ No. If no, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to items 1.b. and 3.b. above? ☒ Yes ☐ No.
4. Compliance
 - a. Will this transaction require disclosure as a Certain Transaction in Enron's proxy statement? ☒ Yes ☐ No.
 - b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee?
☐ Yes ☒ No.
 - c. Have all Enron employees' involvement in this transaction on behalf of LJM been waived by Enron's Office of the Chairman in accordance with Enron's Conduct of Business Affairs Policy? ☒ Yes ☐ No. If no, please explain: _____
 - d. Was this transaction reviewed and approved by Enron's Chief Accounting Officer? ☒ Yes ☐ No.
 - e. Was this transaction reviewed and approved by Enron's Chief Risk Officer? ☒ Yes ☐ No.
 - f. Has the Audit Committee of the Enron Corp. Board of Directors reviewed all Enron/LJM transactions within the past twelve months? ☐ Yes ☒ No. (The Audit Committee's first review of the Enron/LJM transactions will occur in February 2001.) Have all recommendations of the Audit Committee relating to Enron/LJM transactions been taken into account in this transaction? ☐ Yes ☒ No.

VEL 00180

CONFIDENTIAL

APPROVALS	Name	Signature	Date
Global Finance Originator	Ben Glisan		
Global Finance Legal	Scott Sefton		

VEL 00181

LJM APPROVAL SHEET
Page 3

APPROVALS	Name	Signature	Date
Business Unit	Ben Glisan	<i>Ben Glisan</i>	
Business Unit Legal			
Enron Corp. Legal	Rex Rogers	<i>Rex Rogers</i>	5/7/01
Global Finance Legal	Scott Sefton	<i>Scott Sefton</i>	
RAC	Rick Buy <i>DBL</i>	<i>Rick Buy</i>	
Accounting	Rick Causey <i>RC</i>	<i>Rick Causey</i>	
Executive	Jeff Skilling	<i>Jeff Skilling</i>	5/12/01

VEL 00182

ENRON DEAL SUMMARY

CONFIDENTIAL

DEAL NAME: Raptor IV
 Originated: Enron Corp.
 Expected Closing Date: 9/11/00
 Expected Funding Date: 9/15/00

Date Completed: September 11, 2000
 Investment Analyst: Trushar Patel
 Investment Type: Equity

INVESTMENT
 LJM2 Capital Commitment \$ 30,000,000

DEAL DESCRIPTION

Bobcat I LLC ("Bobcat") is a special purpose entity organized for the purpose of entering into certain derivative transactions. LJM2, through its 100% voting control of Bobcat, has the unilateral ability to make the investment decisions for Bobcat and is not contractually obligated to execute any derivative transactions with Enron. LJM2 will execute derivative transactions with Roadrunner I LLC ("Roadrunner"), a wholly-owned subsidiary of Enron, to the extent those investment decisions are aligned with LJM2's investment objectives. Enron, through Roadrunner, will offer LJM2 the opportunity to execute derivative instruments relating to both public and private energy and telecommunication investments made by Enron.

TRANSACTION SUMMARY

- On September 11, 2000, LJM2 will purchase 100% of the voting interest in Bobcat for \$30,000,000.
- Bobcat is a bankruptcy remote, special purpose vehicle that will be capitalized with:
 - LJM2's capital investment
 - A series of forward sales on Enron shares (\$500 million of gross value but \$350 million of net value after a 34.8% liquidity discount has been ascribed given the restrictions imposed on the underlying shares) resulting in ultimate ownership by Bobcat of Enron common stock
 - The sale of puts on 7,126,901 million Enron shares with a strike of \$68.00, a maturity in six months from close and a premium due of \$5.75 per share.
- In exchange for the above capitalization, Bobcat will provide Roadrunner: (i) a \$400 million note whose principal is convertible into derivatives, and (ii) a special limited partnership interest in Bobcat initially valued at \$1,000.
- To limit Bobcat's exposure to the mark-to-market movements of the underlying derivative transactions, Bobcat and Roadrunner agree to limit the notional amount of swaps and premiums paid as follows: (i) up to \$1.5 billion notional value of at-the-money swaps, (ii) up to \$400 million of net premiums on other derivative transactions, and (iii) up to \$1 billion of loss on premium paid derivatives.
- LJM2 will have a fair market value put for its membership interest in Bobcat that allows LJM2 to put its interest back to Roadrunner in the event that LJM2 has not received the greater of \$41 million or a 30% IRR by March 9, 2001.
- Enron has provided support for Roadrunner's financial obligation under such an event in the form of a guaranty.
- At the maturity of the structure, Bobcat will liquidate the excess value, if any, of the Enron shares under the forward sales over the derivative losses, if any, at Bobcat and any principal outstanding on the Bobcat note. The excess proceeds, if any, will be distributed to LJM2 and Roadrunner in accordance with their capital accounts and the distribution waterfall.

INVESTMENT RETURN SUMMARY*Base Case Return*

It is expected that Bobcat will have earnings and cash sufficient to distribute \$41 million to LJM2 within six months.

Distributions

Bobcat's distributions to equity holders will be limited by earnings at Bobcat. To the extent there are earnings and sufficient cash to distribute, distributions will be made according to the following waterfall:

- First, \$41 million to LJM2
- Second, distributions as necessary until LJM2 receives a 30% IRR over the term of the structure (unless the IRR was achieved through the \$41 million distribution above)
- Third, 100% to the special limited partnership interest, Roadrunner I LLC, a wholly-owned subsidiary of Enron

VEL 00177

CONFIDENTIAL

Fair Market Value Put

In the event that LJM2 has not received the greater of \$41 million or a 30% IRR on its investment by March 9, 2001, LJM2 will have a fair market value put whereby LJM2 can put its interest in Bobcat back to Roadrunner. The fair market value of the membership interest is determined largely by Enron's stock price.

Expenses

Enron has agreed to cover all of LJM2's accounting and legal expenses related to this transaction. Enron will cover expenses related to formation of the structure as well as ongoing expenses.

VEL 00178

2-A

2A

CONFIDENTIAL

LJM APPROVAL SHEET

This Approval Sheet should be used to approve Enron's participation in any transactions involving LJM Cayman, L.P. ("LJM1") or LJM2 Co-Investment, L.P. ("LJM2"). LJM1 and LJM2 will collectively be referred to as "LJM". This Approval Sheet is in addition to (not in lieu of) any other Enron approvals that may be required.

GENERAL

Deal name: Project Backbone

Date Approval Sheet completed: June 30, 2000

Enron person completing this form: Brian Hendon

Expected closing date: June 30, 2000

Business Unit: EBS Global Finance

Business Unit Originator: Larry Lawyer

This transaction relates to ☐ LJM1 and/or ☒ LJM2.

This transaction is ☒ a sale by Enron ☐ a purchase by Enron ☐ a co-sale with Enron ☐ a co-purchase with Enron and/or ☐ other: _____

Person(s) negotiating for Enron: Larry Lawyer

Person(s) negotiating for LJM: Michael Kopper

Legal counsel for Enron: Vinson & Elkins (Jay Herbert)

Legal counsel for LJM: Kirkland & Ellis

DESCRIPTION

LJM2 will purchase, via a 7 year IRU, 38 strands of dark fiber from Salt Lake City, UT to Houston, TX (2,169 route miles) at \$1,100 per fiber route mile for a total purchase price of \$90,664,200. EBS will provide a seven year seller finance note representing 70% of the purchase price plus seven years of O&M expense (\$4,099,200), the remaining 30% or \$28,429,083 will be paid in cash by LJM2 to EBS as equity for a total net purchase price of \$94,763,610. EBS will act as marketing agent for the resale of the LJM2 fiber to other third parties. EBS will also provide a liquidity facility, which will not exceed 5% of the purchase price and which will be utilized for any cash shortfalls (including taxes). The liquidity facility will be provided on the same terms and pricing as the seller note.

LJM2 is acquiring the dark fiber through a two-tier structure. LJM2-Backbone2, LLC, wholly owned by LJM-Backbone, LLC, will purchase the dark fiber and be the counterparty for future IRU's. LJM2-Backbone, LLC will guaranty the seller note to EBS and pledge its interest in LJM2-Backbone2, LLC as security therefore. LJM2-Backbone, LLC's only asset will be its interest in LJM2-Backbone2, LLC.

ECONOMICS

EBS will receive cash of \$28,429,083 and a seller note for \$66,334,527 at the 5.6-year average life interpolated Treasury plus 200bps. The net book gain will be approximately \$50,000,000. Proceeds from the sale of LJM2 fiber to other third parties will be allocated according to the following schedule: accrued interest on the seller note (20 year amortization schedule), accrued principal payment (20 year amortization schedule with a 7 year bullet payment), remaining cash will be distributed 70% toward the note principal and 20% to return the equity investment of LJM2. After repayment of principal and interest to EBS and return of and on equity to LJM2, all remaining funds will go to EBS through June 30, 2002. LJM2 will receive an 18% IRR on the initial investment if the dark fiber is sold by June 30, 2002. After June 30, 2002 EBS will receive 95% of excess proceeds with LJM2 receiving the remaining 5%. Additionally, LJM2's IRR will increase to 25% if EBS is not able to sell the dark fiber by June 30, 2002. The seller note pays principal and interest on an annual basis and the liquidity facility is in the form of a revolving credit. If the fiber is not sold, LJM2 retains all risk associated with the transaction.

DASH Attached is a copy of the DASH relating to the underlying transaction.

No update required.

ISSUES CHECKLIST

1. Sale Options

- Site Options
- a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected:
- ☐ Consider ☒ JEDI ☐ Omergas ☐ OnStarCo ☐ Onwilde ☐ Onwren ☒ JEDI II
- ☐ Third Party ☐ Direct Sale Please explain: Prohibitive timing constraints.
- b. Will this transaction be the most beneficial alternative to Enron? ☐ Yes ☐ No. If so, please explain: _____
- c. Were any other bids/offers received in connection with this transaction? ☐ Yes ☒ No. Please explain: _____
2. Prior Obligations
- a. Does this transaction involve a Qualified Investment (as defined in the JEDI II partnership agreements)? ☐ Yes ☒ No.
If yes, please explain how this issue was resolved: _____
- b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? ☐ Yes ☒ No. If yes, please explain: _____
3. Terms of Transaction
- a. What are the benefits (financial and otherwise) to Enron in this transaction? ☒ Cash flow ☐ Synergies
☐ Other: _____
- b. Was this transaction done strictly on an arm's-length basis? ☐ Yes ☒ No. If so, please explain: _____
- c. Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron? ☐ Yes ☒ No. If yes, please explain: _____
- d. Are all LJM expenses and out-of-pocket costs (including legal fees) being paid by LJM? ☐ Yes ☒ No. If so, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to Items 1.b. and 3.b. above? ☐ Yes ☒ No.
4. Compensation
- a. Will this transaction require disclosure as a Certain Transaction in Enron's proxy statement? ☐ Yes ☒ No.
- b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employees? ☐ Yes ☒ No.
- c. Have all Enron employees' involvement in this transaction on behalf of LJM been waived by Enron's Office of the Chairman in accordance with Enron's Conduct of Business Affairs Policy? ☐ Yes ☒ No. If so, please explain: _____
- d. Has the Audit Committee of the Board of Directors reviewed all Enron/LJM transactions within the past twelve months? ☐ Yes ☒ No. (The first annual review by the Audit Committee has not yet occurred.) Have all recommendations of the Audit Committee relating to Enron/LJM transactions been taken into account in this transaction? ☐ Yes ☒ No.

APPROVALS	Name	Signature	Date
Business Unit	Larry Lawyer	<i>[Signature]</i>	6/29/00
Business Unit Legal	Kristina Mordant	<i>[Signature]</i>	6/29/00
Enron Corp. Legal	Rex Rogers	<i>[Signature]</i>	6/29/00
Global Finance Legal	Scott Sefton	<i>[Signature]</i>	6/29/00
RAC	Rich Rye	<i>[Signature]</i>	6/29/00
Accounting	Rich Casey	<i>[Signature]</i>	
Executive	Jeff Stelling/Dee Gorman		

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LJM APPROVAL SHEET
Page 2

CONFIDENTIAL

ISSUES CHECKLIST

1. Sale Options
 - a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected:

☐ Condo ☐ JEDI I ☐ Margaux ☐ EnserCo ☐ Rawhide ☐ Chewco ☐ JEDI II
☐ Third Party ☒ Direct Sale Please explain: Prohibitive timing constraints.
 - b. Will this transaction be the most beneficial alternative to Enron? ☒ Yes ☐ No. If no, please explain: _____
 - c. Were any other bids/offers received in connection with this transaction? ☐ Yes ☒ No. Please explain: _____
2. Prior Obligations
 - a. Does this transaction involve a Qualified Investment (as defined in the JEDI II partnership agreement)? ☐ Yes ☒ No.
If yes, please explain how this issue was resolved: _____
 - b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? ☐ Yes ☒ No. If yes, please explain: _____
3. Terms of Transaction
 - a. What are the benefits (financial and otherwise) to Enron in this transaction? ☒ Cash flow ☒ Earnings
☐ Other: _____
 - b. Was this transaction done strictly on an arm's-length basis? ☒ Yes ☐ No. If no, please explain: _____
 - c. Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron? ☐ Yes ☒ No. If yes, please explain: _____
 - d. Are all LJM expenses and out-of-pocket costs (including legal fees) being paid by LJM? ☐ Yes ☒ No. If no, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to items 1.b. and 3.b. above? ☒ Yes ☐ No.
4. Compliance
 - a. Will this transaction require disclosure as a Certain Transaction in Enron's proxy statement? ☒ Yes ☐ No.
 - b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee? ☐ Yes ☒ No.
 - c. Have all Enron employees' involvement in this transaction on behalf of LJM been waived by Enron's Office of the Chairman in accordance with Enron's Conduct of Business Affairs Policy? ☒ Yes ☐ No. If no, please explain: _____
 - d. Has the Audit Committee of the Enron Corp. Board of Directors reviewed all Enron/LJM transactions within the past twelve months? ☒ Yes ☐ No. (The first annual review by the Audit Committee has not yet occurred.) Have all recommendations of the Audit Committee relating to Enron/LJM transactions been taken into account in this transaction? ☒ Yes ☐ No.

APPROVALS	Name	Signature	Date
Business Unit	Larry Lawyer	<i>[Signature]</i>	6/29/00
Business Unit Legal	Kristina Mordant	<i>[Signature]</i>	6/29/00
Enron Corp. Legal	Rex Rogers	<i>[Signature]</i>	6/29/00
Global Finance Legal	Scott Sefton	<i>[Signature]</i>	6/29/00
RAC	Rick Bay	<i>[Signature]</i>	6/29/00
Accounting	Rick Causey	<i>[Signature]</i>	6/29/00
Executive	Jeff Skilling/Joe Sutton	<i>[Signature]</i>	6/29/00

Web: \\enron.com\apps\ljam\ljam_approval.htm

VEL 00770

2B **2 B**

LJM APPROVAL SHEET

This Approval Sheet should be used to approve Enron's participation in any transactions involving LJM Cayman, L.P. ("LJM1") or LJM2 Co-Investment, L.P. ("LJM2"). LJM1 and LJM2 will collectively be referred to as "LJM". This Approval Sheet is in addition to (not in lieu of) any other Enron approvals that may be required.

GENERAL

Deal name: Project Backbone

Date Approval Sheet completed: June 30, 2000

Enron person completing this form: Brian Hendon

Expected closing date: June 30, 2000

Business Unit: EBS Global Finance

Business Unit Originator: Larry Lawyer

This transaction relates to ☐ LJM1 and/or ☒ LJM2.This transaction is ☒ a sale by Enron ☐ a purchase by Enron ☐ a co-sale with Enron ☐ a co-purchase with Enron and/or
Other: _____

Person(s) negotiating for Enron: Larry Lawyer

Person(s) negotiating for LJM: Michael Kopper

Legal counsel for Enron: Vinson & Elkins (Jay Herbert)

Legal counsel for LJM: Kirkland & Ellis

DEAL DESCRIPTION

LJM2 will purchase, via a 7 year IRU, 38 strands of dark fiber from Salt Lake City, UT to Houston, TX (2,169 route miles) at \$1,100 per fiber route mile for a total purchase price of \$90,664,200. EBS will provide a seven year seller finance note representing 70% of the purchase price plus seven years of O&M expense (\$4,099,200), the remaining 30% or \$28,429,083 will be paid in cash by LJM2 to EBS as equity for a total net purchase price of \$94,763,610. EBS will act as marketing agent for the resale of the LJM2 fiber to other third parties. EBS will also provide a liquidity facility, which will not exceed 5% of the purchase price and which will be utilized for any cash shortfalls (including taxes). The liquidity facility will be provided on the same terms and pricing as the seller note.

LJM2 is acquiring the dark fiber through a two-tier structure. LJM2-Backbone2, LLC, wholly owned by LJM-Backbone, LLC, will purchase the dark fiber and be the counterparty for future IRU's. LJM2-Backbone, LLC will guaranty the seller note to EBS and pledge its interest in LJM2-Backbone2, LLC as security therefore. LJM2-Backbone, LLC's only asset will be its interest in LJM2-Backbone2, LLC.

ECONOMICS

EBS will receive cash of \$28,429,083 and a seller note for \$66,334,527 at the 5.6-year average life interpolated Treasury plus 200bps. The net book gain will be approximately \$50,000,000. Proceeds from the sale of LJM2 fiber to other third parties will be allocated according to the following schedule: accrued interest on the seller note (20 year amortization schedule), accrued principal payment (20 year amortization schedule with a 7 year bullet payment), remaining cash will be distributed 70% toward the note principal and 30% to return the equity investment of LJM2. After repayment of principal and interest to EBS and return of and on equity to LJM2, all remaining funds will go to EBS through June 30, 2002. LJM2 will receive an 18% IRR on the initial investment if the dark fiber is sold by June 30, 2002. After June 30, 2002 EBS will receive 95% of excess proceeds with LJM2 receiving the remaining 5%. Additionally, LJM2's IRR will increase to 25% if EBS is not able to sell the dark fiber by June 30, 2002. The seller note pays principal and interest on an annual basis and the liquidity facility is in the form of a revolving credit. If the fiber is not sold, LJM2 retains all risk associated with the transaction.

DASH Attached is a copy of the DASH relating to the underlying transaction.

No update required.

FROM: RICK BUY
 2014-03-22 10:00

PAK NO.: 801-875-8754
 15-11-2014 10:00

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 7:36:00 12 5:02:04

LDM APPROVAL SHEET
 Page 1

ISSUES CHECKLIST

1. Sale Options
 - a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected:
 - ☐ Consider ☐ JEDI ☐ Margin ☐ EnronCo ☐ Outside ☐ Otherwise ☐ JEDI ☐ Third Party ☐ Direct Sale. Please explain: Prohibitive selling restrictions.
 - b. Will this transaction be the most beneficial alternative to Enron? ☐ Yes ☐ No. If no, please explain: _____
 - c. Were any other bids/offers received in connection with this transaction? ☐ Yes ☐ No. Please explain: _____
2. Prior Obligations
 - a. Does this transaction involve a Qualified Investment (as defined in the JEDI II partnership agreement)? ☐ Yes ☐ No. If yes, please explain: _____
 - b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? ☐ Yes ☐ No. If yes, please explain: _____
3. Terms of Transaction
 - a. What are the benefits (financial and otherwise) to Enron in this transaction? ☐ Cash Flow ☐ Earnings ☐ Other: _____
 - b. Was this transaction done strictly on an arm's-length basis? ☐ Yes ☐ No. If no, please explain: _____
 - c. Was Enron advised by any third party that this transaction was not fair from a financial perspective to Enron? ☐ Yes ☐ No. If yes, please explain: _____
 - d. Are all LDM expenses and out-of-pocket costs (including legal fees) being paid by LDM? ☐ Yes ☐ No. If no, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to items 1.b. and 3.b. above? ☐ Yes ☐ No.
4. Compliance
 - a. Will this transaction require disclosure as a Certain Transaction in Enron's proxy statement? ☐ Yes ☐ No.
 - b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee? ☐ Yes ☐ No.
 - c. Have all Enron employees' involvement in this transaction on behalf of LDM been waived by Enron's Office of the Chairman in accordance with Enron's Conduct of Business Affairs Policy? ☐ Yes ☐ No. If no, please explain: _____
 - d. Has the Audit Committee of the Enron Corp. Board of Directors reviewed all Enron/LDM transactions within the past twelve months? ☐ Yes ☐ No. (The last annual review by the Audit Committee has not yet occurred.) Have all recommendations of the Audit Committee relating to Enron/LDM transactions been taken into account in this transaction? ☐ Yes ☐ No.

APPROVALS	Name	Signature	Date
Business Unit	Larry Lawler	<i>L. M. Lawler</i>	6/29/08
Business Unit Legal	Kristina Mortenson	<i>K. Mortenson</i>	6/29/08
Enron Corp. Legal	Ron Rogers	<i>R. Rogers</i>	6/29/08
Global Finance Legal	Scott Seifert	<i>S. Seifert</i>	6/29/08
RAC	Rick Buy	<i>R. Buy</i>	6/29/08
Accounting	Rick Conroy	<i>R. Conroy</i>	
Executive	Jeff Shilling/Ver. Sonnen		

Validated by: [Signature] LDM Approval Sheet 6/27/08 ver.

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VEL 00769

ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: Bulk Fiber Sale	Date DASH Completed:
Counterparty: LJM2	RAC Analyst:
Business Unit: Enron Broadband Services	Investment Type: Equity
Business Unit Originator: Larry Lawyer	Capital Funding Source(s):
<input type="checkbox"/> Public <input checked="" type="checkbox"/> Private	Expected Closing Date:
<input type="checkbox"/> Merchant <input checked="" type="checkbox"/> Strategic	Expected Funding Date:
<input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	Board Approval: <input type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input checked="" type="checkbox"/> N/A

RAC Recommendation: ☐ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

APPROVAL AMOUNT REQUESTED

Capital Commitment	< \$ 94.8 million>	Sale of Fiber
	<u>\$ 66.4 million</u>	Enron provided Seller Finance
	< \$ 28.4 million>	Net Cash Inflow

EXPOSURE SUMMARY

This transaction:	\$ 66.4 million
Total	\$ 66.4 million

DEAL DESCRIPTION

EBS would sell \$94.8 million of dark fiber and provide \$66.4 million of seller financing to LJM2 at the 5.6-year interpolated Treasury plus 200bps for a period of seven years. The fiber consists of 38 strands of long haul dark fiber from Salt Lake City to Houston that Enron constructed on a previous build. This fiber is to be sold to LJM2 at a price of \$1,100/ fiber mile.

EBS will act as marketing agent for the resale of the LJM2 fiber to other third parties and the commission for this service equates to the majority of the upside on the sale in excess of LJM2's return (see Return Summary).

LJM2 is acquiring the dark fiber through a two-tier structure. LJM2-Backbone2, LLC, wholly owned by LJM-Backbone, LLC, will purchase the dark fiber and be the counterparty for future IRU's. LJM2-Backbone, LLC will guaranty the seller note to EBS and pledge its interest in LJM2-Backbone2, LLC as security. However, LJM2-Backbone, LLC's only asset will be its interest in LJM2-Backbone2, LLC.

TRANSACTION SOURCES AND USES OF FUNDS

	<u>Sources</u>		<u>Uses</u>
Sale of Fiber	\$ 94.8 million	Enron Provided Debt	\$ 66.4 million
		LJM2 Equity	<u>\$ 28.4 million</u>
Total	<u>\$ 94.8 million</u>		\$ 94.8 million

RETURN SUMMARY

EBS would sell fiber for \$1100/fiber mile that has an average cost basis of \$453/fiber mile. The fiber has been sold at market according to EBS' bandwidth traders. The majority of any upside which occurs in the future (above LJM2's return) from a sale is captured by Enron through a marketing arrangement.

LJM2 provides \$28.0 million of equity which is repaid after debt service as fiber is sold. The return to LJM2 increases based on the time that the fiber remains unsold at LJM2 according to the following schedule.

Time	LJM2 Return on equity
0-24 months	18%
>24 months	25% + 5% of upside from fiber sales

LJM2 retains the risk that the price of fiber drops below \$1,100/fiber mile.

AF100212

"FOIA CONFIDENTIAL
TREATMENT REQUESTED
BY ANDREW FASTOW"

CASH FLOW SUMMARY**Amortization Schedule of the Seller Note:**

June 29, 2001	\$6,651
June 29, 2002	\$6,651
June 29, 2003	\$6,651
June 29, 2004	\$6,651
June 29, 2005	\$6,651
June 29, 2006	\$6,651
June 29, 2007	\$59,892

Proceeds from the sale of LJM2 fiber to other third parties will be allocated according to the following schedule: accrued interest on the seller note (20 year amortization schedule), accrued principal payment (20 year amortization schedule with a 7 year bullet payment), remaining cash will be distributed 70% toward the note principal and 30% to return the equity investment of LJM2. After repayment of principal and interest to EBS and return on and of equity to LJM2, all remaining funds will go to EBS through June 30, 2002. After June 30, 2002 EBS will receive 95% of excess proceeds with LJM2 receiving the remaining 5%.

TRANSACTION UPSIDES/OPTIONALITY

The cost of the transaction is dependent on the amount of time that it takes to sell the fiber to third parties.

EXIT STRATEGY

The debt has a term of seven years but amortizes on a 20 year basis. There is no penalty for early repayment. The expectation is that the fiber will be sold and the debt repaid before the seven year period.

RISK MATRIX (Maximum 5)

DESCRIPTION	MITIGATION/COMMENTS
Residual Fiber	As agent, Enron may need to sell some odd routes to minimize LJM2's equity return. Enron will be managing the sales process and will be making the commercial decision in the future on how fiber should be sold.

KEY SUCCESS FACTORS

	NA	Poor	Fair	Good	VGood	Excellent
Core Business	X					
Strategic Fit	X					
Upside Potential	X					
Management	X					
Risk Mitigation	X					

MILESTONES

Increases in LJM2 Targeted Return

Maturity of Debt

June 29, 2007

AF100213

OTHER RAC COMMENTS:

Global Finance Summary (addendum to DASH)

1. Transaction Summary

	Amount (\$000)
Total Deal/Project Capital Commitment	\$65,378
Less: Financings	-0-
Less: Syndications	-0-
Net Enron Investment	\$65,378

2. Investment terms and pricing: ☒ Market ☐ Above Market ☐ Below Market

Describe (if necessary):

3. Financing terms and pricing: ☒ Market ☐ Above Market ☐ Below Market

Describe (if necessary):

4. Legal or practical liquidity restrictions: ☒ Unrestricted ☐ Legally Restricted ☐ Practically Restricted

Describe (if necessary): Seller Note risk based on EBS performance risk with no liquidity on assignments.

5. Any recourse to Enron (other than investment): ☐ Recourse ☒ No Recourse

Describe (if any):

6a. Business unit intent to syndicate: ☒ None ☐ Partial ☐ All

Describe (if necessary):

6b. Intended Enron hold period: Expected to be held until repaid.

6c. Likely Syndication Market: ☐ Industry/Strategic Partner ☐ Direct Private Equity

☐ Capital Markets ☐ JEDI 1

☐ JEDI 2 ☐ Enserco

☐ LJM 1 or 2 ☐ Condor

☐ Other: ☐ Margaux

6d. Is this a JEDI 2 "Qualified Investment"? ☐ Yes ☒ No

Global Finance Representative:


 Signature

Larry Lawyer

Name (Printed)

6/29/00

Date

JUN JUN 29 2000 4:26PM OBJECT - HIRKO
 JUN 29 2000 3:58PM REC'D - HIRKO
 JUN 29 2000 3:58PM FAXED - HIRKO

FAX NO. 0000000000 NO. 1388 P. 3 4
 713 629 1292 TO 71364888 NO. 1384 P. 1 6
 HQ 1012 P. 6

APPROVALS	Name	Signature	Date
Commercial Mgmt.	Larry Lerner	<i>[Signature]</i>	6/25/00
Regional Mgmt.	Joe Hilde/ Ken Koo/Kevin Hansen	<i>[Signature]</i>	6/25/00
Legal	Kristen Marston	<i>[Signature]</i>	6/29/00
Accounting	Ted Lindholm		
SAC Management	Rick Day David Goss		
Energy Capital Management	Andy Papenberger Olson		
EMP Management	Jeff Shilling/Dan Sorensen		

PROCESSED DATE 06/29/00

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PAGE 06
 TOTAL PAGE 06

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 BY ANDREW FASTOW"

FROM: RICK BUY


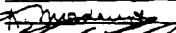
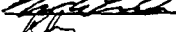
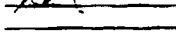
FAX NO.: 683-875-8754

JUN 29 2000 06:56 PM P:

JUN 29 2000 17:45

RISK ASSESSMENT & CONTROL

7136463012 F. 24:05

APPROVALS	Name	Signature	Date
Commercial Mgmt.	Larry Lerner		6/21/00
Regional Mgmt.	Joe Hider/ Karl Lane/Kerry Hansen		
Legal	Kristen Nordman		6/28/00
Accounting	Ted Lindholm		6/29/00
RAC Management	Rick Buy/ David Gerts		6/28/00
Exxon Capital Management	Andy Panow/Ben Olson		
ONE Management	Jeff Eckling/Joe Brown		

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Page 3

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PAGE 06

TOTAL PAGE 06

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"FOIA CONFIDENTIAL
TREATMENT REQUESTED
BY ANDREW FASTOW"

JUN 28 2000 07:24 PM ENRON

NO. 1692 P. 6

APPROVALS	Name	Signature	Date
Commercial Mgmt	Larry Lawyer	<i>[Signature]</i>	6/29/00
Regional Mgmt	Joe Hinko/ Ken Rice/ Kevin Hanson	<i>[Signature]</i>	6/29/00
Legal	Kristina Mordasani	<i>[Signature]</i>	6/29/00
Accounting	Tod Lindholm	<i>[Signature]</i>	6/29/00
RAC Management	Rick Buy/ David Gots	<i>[Signature]</i>	6-29-00
Enron Capital Management	Andy Fastow/Ben Glisan	<i>[Signature]</i>	6-29-00
ENE Management	Jeff Skilling/Joe Sutton	<i>[Signature]</i>	

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Page 3

AF100217

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PAGE 05

"FOIA CONFIDENTIAL
TREATMENT REQUESTED
BY ANDREW FASTOW"

expenses. These increased operating expenses are not expected to have a material impact on Enron's financial position or results of operations.

Enron's natural gas pipeline companies conduct soil and groundwater remediation on a number of their facilities. Enron does not expect to incur material expenditures in connection with soil and groundwater remediation.

15 COMMITMENTS

Firm Transportation Obligations

Enron has firm transportation agreements with various joint venture and other pipelines. Under these agreements, Enron must make specified minimum payments each month. At December 31, 2000, the estimated aggregate amounts of such required future payments were \$81 million, \$88 million, \$89 million, \$85 million and \$77 million for 2001 through 2005, respectively, and \$447 million for later years.

The costs recognized under firm transportation agreements, including commodity charges on actual quantities shipped, totaled \$68 million, \$55 million and \$30 million in 2000, 1999 and 1998, respectively.

Other Commitments

Enron leases property, operating facilities and equipment under various operating leases, certain of which contain renewal and purchase options and residual value guarantees. Future commitments related to these items at December 31, 2000 were \$123 million, \$98 million, \$69 million, \$66 million and \$49 million for 2001 through 2005, respectively, and \$359 million for later years. Guarantees under the leases total \$556 million at December 31, 2000.

Total rent expense incurred during 2000, 1999 and 1998 was \$143 million, \$143 million and \$147 million, respectively.

Enron has entered into two development agreements whereby Enron is required to manage construction of a certain number of power projects on behalf of third-party owners. Under one development agreement, where construction is expected to be completed on or before March 31, 2004, Enron has agreed to enter into power offtake agreements for varying portions of the offtake from each facility. Under both development agreements, Enron maintains purchase options, which may be assigned to a third party. In addition to the purchase option under the other development agreement, Enron maintains lease options on the power projects. If upon completion, which is expected to occur on or before August 31, 2002, Enron has failed to exercise one of its options, Enron may participate in the remarketing of the power projects which Enron has guaranteed the recovery of 89.9 percent of certain project costs, of which approximately \$140 million has been incurred through December 31, 2000.

Enron guarantees the performance of certain of its unconsolidated equity affiliates in connection with letters of credit issued on behalf of those entities. At December 31, 2000, a total of \$264 million of such guarantees were outstanding, including \$103 million on behalf of EOTT Energy Partners, L.P. (EOTT). In addition, Enron is a guarantor on certain liabilities of unconsolidated equity affiliates and other companies totaling approximately \$1,863 million at December 31, 2000, including \$538 million related to EOTT trade obligations. The EOTT letters of credit and guarantees of trade obligations are secured by the assets of EOTT. Enron has also guaranteed \$386 million in lease obligations for which it has been indemnified by an "Investment Grade" company. Management does not consider it likely that Enron would be required to perform or otherwise incur any loss

es associated with the above guarantees. In addition, certain commitments have been made related to capital expenditures and equity investments planned in 2001.

On December 15, 2000, Enron announced that it had entered into an agreement with Azurix under which the holders of Azurix's approximately 39 million publicly traded shares would receive cash of \$8.375 in exchange for each share. The agreement, which is subject to the approval of Azurix shareholders, is expected to close in early 2001.

16 RELATED PARTY TRANSACTIONS

In 2000 and 1999, Enron entered into transactions with limited partnerships (the Related Party) whose general partner's managing member is a senior officer of Enron. The limited partners of the Related Party are unrelated to Enron. Management believes that the terms of the transactions with the Related Party were reasonable compared to those which could have been negotiated with unrelated third parties.

In 2000, Enron entered into transactions with the Related Party to hedge certain merchant investments and other assets. As part of the transactions, Enron (i) contributed to newly-formed entities (the Entities) assets valued at approximately \$1.2 billion, including \$150 million in Enron notes payable, 3.7 million restricted shares of outstanding Enron common stock and the right to receive up to 18.0 million shares of outstanding Enron common stock in March 2003 (subject to certain conditions) and (ii) transferred to the Entities assets valued at approximately \$309 million, including a \$50 million note payable and an investment in an entity that indirectly holds warrants convertible into common stock of an Enron equity method investee. In return, Enron received economic interests in the Entities, \$309 million in notes receivable, of which \$259 million is recorded at Enron's carryover basis of zero, and a special distribution from the Entities in the form of \$1.2 billion in notes receivable, subject to changes in the principal for amounts payable by Enron in connection with the execution of additional derivative instruments. Cash in these Entities of \$172.6 million is invested in Enron demand notes. In addition, Enron paid \$123 million to purchase share-settled options from the Entities on 21.7 million shares of Enron common stock. The Entities paid Enron \$10.7 million to terminate the share-settled options on 14.6 million shares of Enron common stock outstanding. In late 2000, Enron entered into share-settled collar arrangements with the Entities on 15.4 million shares of Enron common stock. Such arrangements will be accounted for as equity transactions when settled.

In 2000, Enron entered into derivative transactions with the Entities with a combined notional amount of approximately \$2.1 billion to hedge certain merchant investments and other assets. Enron's notes receivable balance was reduced by \$36 million as a result of premiums owed on derivative transactions. Enron recognized revenues of approximately \$500 million related to the subsequent change in the market value of these derivatives, which offset market value changes of certain merchant investments and price risk management activities. In addition, Enron recognized \$44.5 million and \$14.1 million of interest income and interest expense, respectively, on the notes receivable from and payable to the Entities.

In 1999, Enron entered into a series of transactions involving a third party and the Related Party. The effect of the transactions was (i) Enron and the third party amended certain forward contracts to purchase shares of Enron common stock, resulting in Enron having forward contracts to purchase Enron common shares at the market price on that day, (ii) the Related Party received 6.8 million shares of Enron common stock subject to certain restrictions and (iii) Enron received a note receivable, which

was repaid in December 1999, and certain financial instruments hedging an investment held by Enron. Enron recorded the assets received and equity issued at estimated fair value. In connection with the transactions, the Related Party agreed that the senior officer of Enron would have no pecuniary interest in such Enron common shares and would be restricted from voting on matters related to such shares. In 2000, Enron and the Related Party entered into an agreement to terminate certain financial instruments that had been entered into during 1999. In connection with this agreement, Enron received approximately 3.1 million shares of Enron common stock held by the Related Party. A put option, which was originally entered into in the first quarter of 2000 and gave the Related Party the right to sell shares of Enron common stock to Enron at a strike price of \$71.31 per share, was terminated under this agreement. In return, Enron paid approximately \$26.8 million to the Related Party.

In 2000, Enron sold a portion of its dark fiber inventory to the Related Party in exchange for \$30 million cash and a \$70 million note receivable that was subsequently repaid. Enron recognized gross margin of \$67 million on the sale.

In 2000, the Related Party acquired, through securitizations, approximately \$35 million of merchant investments from Enron. In addition, Enron and the Related Party formed partnerships in which Enron contributed cash and assets and the Related Party contributed \$17.5 million in cash. Subsequently, Enron sold a portion of its interest in the partnership through securitizations. See Note 3. Also, Enron contributed a put option to a trust in which the Related Party and Whitewing hold equity and debt interests. At December 31, 2000, the fair value of the put option was a \$36 million loss to Enron.

In 1999, the Related Party acquired approximately \$371 million of merchant assets and investments and other assets from Enron. Enron recognized pre-tax gains of approximately \$16 million related to these transactions. The Related Party also entered into an agreement to acquire Enron's interests in an unconsolidated equity affiliate for approximately \$34 million.

17 ASSET IMPAIRMENT

In 1999, continued significant changes in state and federal rules regarding the use of MTBE as a gasoline additive have significantly impacted Enron's view of the future prospects for this business. As a result, Enron completed a reevaluation of its position and strategy with respect to its operated MTBE assets which resulted in (i) the purchase of certain previously-leased MTBE related assets, under provisions within the lease, in order to facilitate future actions, including the potential disposal of such assets and (ii) a review of all MTBE-related assets for impairment considering the recent adverse changes and their impact on recoverability. Based on this review and disposal discussions with market participants, in 1999, Enron recorded a \$441 million pre-tax charge for the impairment of its MTBE-related assets.

18 ACCOUNTING PRONOUNCEMENTS

Cumulative Effect of Accounting Changes

In 1999, Enron recorded an after-tax charge of \$131 million to reflect the initial adoption (as of January 1, 1999) of two new accounting pronouncements, the AICPA Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities" and the Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The 1999 charge was primarily related to the adoption of SOP 98-5.

Recently Issued Accounting Pronouncements

In 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value through earnings, with special accounting allowed for certain qualifying hedges. Enron will adopt SFAS No. 133 as of January 1, 2001. Due to the adoption of SFAS No. 133, Enron will recognize an after-tax non-cash loss of approximately \$5 million in earnings and an after-tax non-cash gain in "Other Comprehensive Income," a component of shareholders' equity, of approximately \$22 million from the cumulative effect of a change in accounting principle. Enron will also reclassify \$532 million from "Long-Term Debt" to "Other Liabilities" due to the adoption.

The total impact of Enron's adoption of SFAS No. 133 on earnings and on "Other Comprehensive Income" is dependent upon certain pending interpretations, which are currently under consideration, including those related to "normal purchases and normal sales" and inflation escalators included in certain contract payment provisions. The interpretations of these issues, and others, are currently under consideration by the FASB. While the ultimate conclusions reached on interpretations being considered by the FASB could impact the effects of Enron's adoption of SFAS No. 133, Enron does not believe that such conclusions would have a material effect on its current estimate of the impact of adoption.

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Delish
Park
Velvet
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LJM INVESTMENT 2000 ACTIVITY WITH ENRON

Investment	Description	Notional Amount (\$MM)	Return (Realized or Protected)	Benefit to Enron
A. Balance Sheet Resco	Purchase of equity investment in EES' residential energy services.	0.7	25%	Deconsolidation No allowance for interest monetization of \$1.5M net income
The New Power Company	Purchase of equity investment in EES' residential energy services.	38.0	TBD	N/A
Yosemite	Purchase of an interest in certain Trust Investments supported by Enron credit, such interest subsequently sold to Whitewing, an Enron nonconsolidated affiliate.	33.8	\$100k fee	Fast execution monetize plan with Enron's protection
EE&CC Turbines	Acquired rights from Enron to purchase two turbines from GE with option to sell such turbines to EE&CC within 6 months, subsequently extended option for 1 month, option exercised in Dec 2000	38.0	\$1.1 MM premium	Deconsolidation until Turbopark Key asset with value
Margaut	Purchase of equity certificates in a monetization structure for three European power plants	10.0	12-16% Certificate yield	Deconsolidation
Rawhide	Purchase of equity certificates in a monetization structure for certain domestic and international assets	12.5	1-700bp Certificate yield	Deconsolidation
Avici	Purchase of equity certificates in a monetization structure for Enron's interest in Avici shares	1.0	15% Certificate yield	No other buyer
Catalytica	Purchase of equity certificates in a monetization structure for Enron's interest in Catalytica shares	1.8	15% Certificate yield	No other buyer
Pulp and Paper	Serves as general partner in a limited partnership interest that purchased an interest in Enron's Pulp and Paper trading business	8.0	\$150k fee, 15% preferred return that escalates	Deconsolidation Earnings for selling 50% partnership of 100% Enron
Nova Sarzyna	Diversified of 75% indirect equity interest in Polish power plants	30.0	25% plus \$750k fee	Deconsolidation Funds Flow

* Indicates LJM made investment on same terms as other 3rd party investors

VEL 00350

Feb 2001
Audit Firm: *[Signature]*
To: *[Signature]*
From: *[Signature]*

Discussion Points

5

1/ Untenable Situation

- LTM situation where AF wants 2 hats and upside comp is so close creates a conflict that puts me as I am right in the middle of.
- I find myself negotiating with Andy on salary matters and am pressured to do a deal that I do not believe is in the best interests of the shareholders [did not me to be as in this position]

2/ Request/Options

- (A) ~~Request~~ My integrity forces me to continue to negotiate the way I believe is correct - ~~to do~~ [however, AF is my boss].

- In order to continue to do this, I MUST know I have support from you and there won't be any ramifications [believe it or not, has affected my comp]

OR

- (B) Need to be out of situation and go do something else in company. Will not compromise my integrity

20

Conference Notes

1/ Terms and Pricing

- Follow Y&W on costs - who audit?

2/ Bank Impairments vs. to debts owed

3/ Other Personnel Matters -

ENE fighting to LSN
→ Same Price

- Same Meeting Attendance

- Bonuses no longer affected - MUX, JIM

4/ General Conflict Matter Resolution -

* Wants to be able to speak freely
and not do it behind the scenes
via Joe's of Jeff's *

SW(HSE&EC)0013

Printed: 12/18/2007, 10:50 AM

**Tentative & Preliminary
NOT FOR USE IN ANY GAIN/LOSS**

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SWHSE&ECJ0014

Raptor Hedging Strategy Analysis

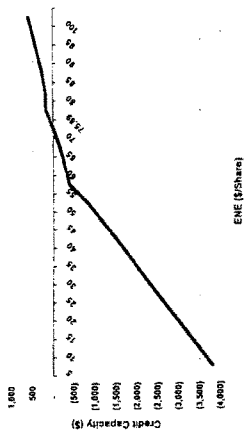


risk assessment & control

Raptor Credit Capacity Before & After Restructuring

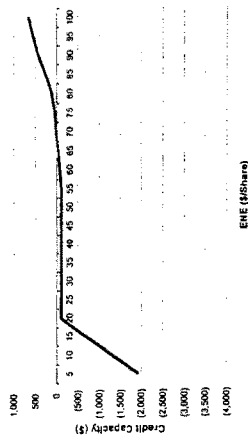
Original Raptor Structure:

- *Shortfall of restricted shares*: Breakeven point is at \$/1.48/share.
- *Significant drop in value of NPW warrants*: NPW price changed from \$21/share at Raptor inception to current \$6/share.
- *Significant drop in value of Raptor hedge*
- *Collars on ENE shares structured with Enron Corp*



New Raptor Structure:

- *Added ENE shares from JEDI to Raptor II & IV at 23% discount*
- *Placed Collar on Raptor II & IV*
- *Monetized Tahiti Note*



risk assessment & control

Lessons Learned

- Recognize the effect of accounting hedge vs. economic hedge
- Corp. should consider hedging assets in Raptor to minimize credit capacity volatility
- The new Raptor structure transferred risk in the form of stock dilution

But Corp isn't Raptor! Why should "Corp" consider anything at Raptor?

What is the "new" Raptor structure? That is the "new" Raptor structure!

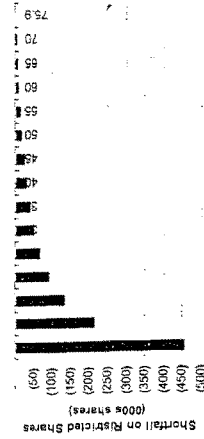
Appendix I

Raptor Credit Capacity: (ENE: \$60/share, NPW: \$6/share)*

	Initial Credit Capacity	LJM Distribution	Credit Capacity Attrib. LJM Distribution	Raptor Hedge Net Gain(Loss)	Change In Contributed Stock	Other Income/(Loss)	Current Credit Capacity
Raptor I	\$ 222,923,065	\$ (41,000,000)	\$ 181,923,065	\$ (421,872,987)	\$ 79,967,265	\$ 24,127,011	\$(135,855,646)
Raptor II	210,023,063	(41,000,000)	177,023,063	(23,229,378)	18,717,086	19,209,840	191,720,611
Raptor IV	216,923,069	(40,469,684)	176,453,385	-	(391,455,665)	24,622,723	(190,379,557)
Raptor III	530,473,883	(39,500,000)	490,973,883	(247,363,899)	(361,767,000)	(1,407,100)	(113,564,199)
Total	1,194,342,997	(161,969,684)	1,032,373,313	(682,466,264)	(654,538,313)	66,552,473	(248,078,791)

Shortfall on ENE Common stock Forwards:

	ENE Shares: Forward Sales from Whitewing	Forward Sales Shares	Shortfalls	TNPC Shares
Raptor I	3,876,755	-	-	-
Raptor II	7,809,799	(2,144,378)	(5,665,421)	-
Raptor IV	6,326,045	(6,326,045)	-	-
Raptor III	-	-	-	24,117,800
Total	18,012,599	(8,470,423)	9,542,176	24,117,800



ENE (\$/share)

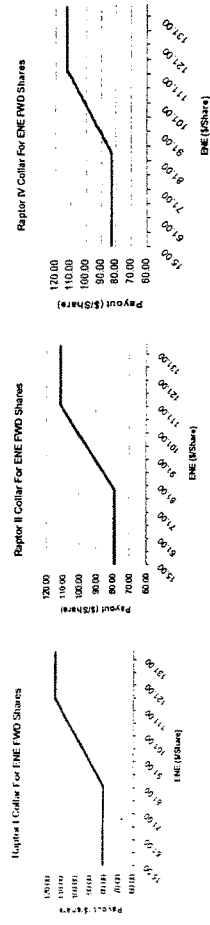
*c. Used the hedging asset value on 3/7/01.

risk assessment & co

Appendix II: Collars in Raptor Structures

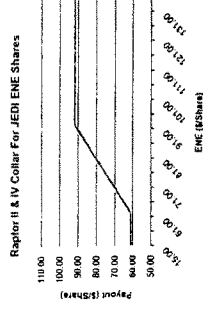
Collars in Original Raptor Structures

- Raptor I: Long put @81.00, short call @116.00, 3,876,755 shares
- Raptor II: Long put @78.88, short call @111.86, 7,809,790 shares
- Raptor IV: Long put @83.00, short call @112.42, 6,326,045 shares



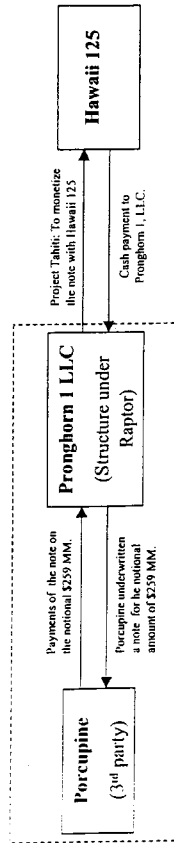
Collars in New Raptor Structure

- Both Raptor II and IV have same collar structure.
- Raptor II: Long put @\$61.48, short call @\$91.04, 7,919,393 shares
- Raptor IV: Long put @\$61.48, short call @\$91.04, 4,080,607 shares



Appendix III: Project Tahiti

- Porcupine, a third party, is making payments to Pronghorn 1 LLC, on a \$259MM notional note.
- The note is due on April, 2005.
- Pronghorn 1 — LLC, is a sub-structure of Raptor.
- Pronghorn monetized the note with Hawaii 125, another ENE off-balance sheet structure.
- Currently, \$30 MM of the note has been monetized with no discount
- By 2001 end of year, another \$50 MM with be monetized with no discount.
- The remaining \$179 MM note will be monetized in the next few years.



9

9

Watkins, Sherron

Subject: Mtg. w/ Jimmie Williams and Javier Li
Location: EB 896
Start: Mon 7/30/2001 2:00 PM
End: Mon 7/30/2001 3:00 PM
Recurrence: (none)
Meeting Status: Meeting organizer
Required Attendees: Watkins, Sherron
Resources: Booty, Rossana

[illegible]

Enron Sensitivity To NPW Share Price



Income/Cash Impact

	Cash	Income
1999	41.30	
2000	140.90	440.60
2001	50.00	22.00
	190.90	503.90

42.4M Warrants
= 13.7M Common Shares

Ownership Summary

	Common	Warrants	Options	Total	%	F.D. T-Stock	%
EES	8.65	42.13	-	50.78	36.8%	50.47	39.8%
Cortez	5.00	-	-	5.00	3.6%	5.00	3.9%
Other Private (Inc. Mgmt.)	17.03	26.94	10.61	54.58	39.6%	43.77	34.5%
Public Investors	27.60	-	-	27.60	20.0%	27.60	21.8%
Total	58.28	69.07	10.61	137.96	100.0%	126.84	100.0%

Assumptions

Hawaii Warrants	Number	Basis
Mc Garret G	6,776,400	\$ 6.675
Mc Garret D	8,458,200	\$ 10.750
Mc Garret C	2,791,800	\$ 10.750
Hawaii Notes		
Mc Garret L	30,000,000	\$ 30.000,000
Mc Garret M	20,000,000	\$ 20.000,000

NPW

Regulator Vehicle	Number	Basis
Total Return Swap	18,008,400	\$ 20.735
Shares	24,117,800	\$ 10.75
Cash Distribution to LJM		\$ 9,500,000
Other Income/(Loss) as of 6/22		\$ 2,864,614
Enron Holdings		
Shares	13,850,400	\$ 5.564

Sensitivity

NPW Share Price (\$/Share)	5	6	7	8	9	10	11	12	13	14	15
Net Cash (\$ MM)	\$ (234.3)	\$ (160.5)	\$ (86.7)	\$ (12.9)	\$ 60.9	\$ 134.7	\$ 206.5	\$ 282.3	\$ 356.1	\$ 429.9	\$ 503.7
Net Income (\$ MM)	\$ (310.5)	\$ (236.7)	\$ (162.9)	\$ (89.1)	\$ (15.3)	\$ 59.5	\$ 132.3	\$ 206.1	\$ 279.9	\$ 353.7	\$ 427.5

Enron Energy Services

Proprietary & Confidential

NPW Share Price (\$/Share)

See (ASE + EC) 0031

Dear Mr. Lay,

10

Has Enron become a risky place to work? For those of us who didn't get rich over the last few years, can we afford to stay?

Skilling's abrupt departure will raise suspicions of accounting improprieties and valuation issues. Enron has been very aggressive in its accounting – most notably the Raptor transactions and the Condor vehicle. We do have valuation issues with our international assets and possibly some of our EES MTM positions.

The spotlight will be on us, the market just can't accept that Skilling is leaving his dream job. I think that the valuation issues can be fixed and reported with other goodwill write-downs to occur in 2002. How do we fix the Raptor and Condor deals? They unwind in 2002 and 2003, we will have to pony up Enron stock and that won't go unnoticed.

To the layman on the street, it will look like we recognized funds flow of \$800 mm from merchant asset sales in 1999 by selling to a vehicle (Condor) that we capitalized with a promise of Enron stock in later years. Is that really funds flow or is it cash from equity issuance?

We have recognized over \$550 million of fair value gains on stocks via our swaps with Raptor, much of that stock has declined significantly – Avici by 98%, from \$178 mm to \$5 mm, The New Power Co by 70%, from \$20/share to \$6/share. The value in the swaps won't be there for Raptor, so once again Enron will issue stock to offset these losses. Raptor is an LJM entity. It sure looks to the layman on the street that we are hiding losses in a related company and will compensate that company with Enron stock in the future.

I am incredibly nervous that we will implode in a wave of accounting scandals. My 8 years of Enron work history will be worth nothing on my resume, the business world will consider the past successes as nothing but an elaborate accounting hoax. Skilling is resigning now for 'personal reasons' but I think he wasn't having fun, looked down the road and knew this stuff was unfixable and would rather abandon ship now than resign in shame in 2 years.

Is there a way our accounting guru's can unwind these deals now? I have thought and thought about how to do this, but I keep bumping into one big problem – we booked the Condor and Raptor deals in 1999 and 2000, we enjoyed a wonderfully high stock price, many executives sold stock, we then try and reverse or fix the deals in 2001 and it's a bit like robbing the bank in one year and trying to pay it back 2 years later. Nice try, but investors were hurt, they bought at \$70 and \$80/share looking for \$120/share and now they're at \$38 or worse. We are under too much scrutiny and there are probably one or two disgruntled 'redeployed' employees who know enough about the 'funny' accounting to get us in trouble.

What do we do? I know this question cannot be addressed in the all employee meeting, but can you give some assurances that you and Causey will sit down and take a good hard objective look at what is going to happen to Condor and Raptor in 2002 and 2003?

SW(HSE&EC)0001

Dear Mr. Lay,

||

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SW(HSE&EC)0007

Summary of accounting irregularities:

Raptor

The Raptor entities were capitalized with LJM equity. The contributed equity is technically at risk; however, the investment was completely offset by some sort of cash structuring fee paid to LJM. If the Raptor entities go bankrupt LJM is not affected, there is no commitment to contribute more equity.

The majority (i.e., 99%) of the capitalization of the Raptor entities is some form of Enron N/P, restricted stock and contingent stock rights.

Enron entered into several equity derivative transactions with the Raptor entities locking in our values for various equity investments we hold.

As disclosed, in 2000, we recognized \$500 million of revenue from the equity derivatives offset by market value changes in the underlying securities.

This year, with the value of our stock declining, the underlying capitalization of the Raptor entities is declining and Credit is pushing for reserves against our MTM positions.

To avoid such a write-down or reserve in Q1 2001, we 'enhanced' the capital structure of the Raptor vehicles, committing more ENE shares.

My understanding of the Q3 problem is that we must 'enhance' the vehicles by \$250 million.

I realize that we have had a lot of smart people looking at this and a lot of accountants including AA&Co. have blessed the accounting treatment. None of that will protect Enron if these transactions are ever disclosed in the bright light of day. (Please review the late 90's problems of Waste Management – where AA paid \$7mm (sued for \$130+ mm) in litigation re: questionable accounting practices).

One of the overriding basic principles of accounting is that if you explain the 'accounting treatment' to a man on the street, would you influence his investing decisions? Would he sell or buy the stock based on a thorough understanding of the facts? If so, you best present it correctly and/or change the accounting.

My concern is that the footnotes don't adequately explain the transactions. If adequately explained, the investor would know that the "Entities" described in our related party footnote are thinly capitalized, the equity holders have no skin in the game, and all the value in the entities comes from the underlying value of the derivatives (unfortunately in this case, a big loss) AND Enron stock and N/P. Looking at the stock we swapped, I also don't believe any other company would have entered into the equity derivative transactions with us at the same prices or without

substantial premiums from Enron. In other words, the \$500 million in revenue in 2000 would have been much lower. How much lower?

Raptor looks to be a big bet, if the underlying stocks did well, then no one would be the wiser. If Enron stock did well, the stock issuance to these entities would decline and the transactions would be less noticeable. All has gone against us. The stocks, most notably Hanover, The New Power Co., and Avici are underwater to great or lesser degrees.

I firmly believe that executive management of the company must have a clear and precise knowledge of these transactions and they must have the transactions reviewed by objective experts in the fields of securities law and accounting. I believe Ken Lay deserves the right to judge for himself what he believes the probabilities of discovery to be and the estimated damages to the company from those discoveries and decide one of two courses of action:

1. The probability of discovery is low enough and the estimated damage too great: therefore we find a way to quietly and quickly reverse, unwind, write down these positions/transactions.
2. The probability of discovery is too great, the estimated damage to the company too great; therefore, we must quantify, develop damage containment plans and disclose.

I firmly believe that the probability of discovery significantly increased with Skilling's shocking departure. Too many people are looking for a smoking gun.

To put the accounting treatment in perspective I offer the following:

1. We've contributed contingent Enron equity to the Raptor entities. Since it's contingent, we have the consideration given and received at zero. We do, as Causey points out, include the shares in our fully diluted computations of shares outstanding if the current economics of the deal imply that Enron will have to issue the shares in the future. This impacts 2002 – 2004 EPS projections only.
2. We lost value in several equity investments in 2000. \$500 million of lost value. These were fair value investments, we wrote them down. However, we also booked gains from our price risk management transactions with Raptor, recording a corresponding PRM account receivable from the Raptor entities. That's a \$500 million related party transaction – it's 20% of 2000 IBIT, 51% of NI pre tax, 33% of NI after tax.
3. Credit reviews the underlying capitalization of Raptor, reviews the contingent shares and determines whether the Raptor entities will have enough capital to pay Enron its \$500 million when the equity derivatives expire.
4. The Raptor entities are technically bankrupt; the value of the contingent Enron shares equals or is just below the PRM account payable that Raptor owes Enron. Raptor's inception to date income statement is a \$500 million loss.
5. Where are the equity and debt investors that lost out? LJM is whole on a cash on cash basis. Where did the \$500 million in value come from? It came from Enron shares. Why haven't we booked the transaction as \$500 million in a promise of shares to the Raptor entity and \$500 million of value in our "Economic Interests" in these entities? Then we would have a write down of our value in the Raptor entities. We have not booked the latter, because we do not have to yet. Technically, we can wait and face the music in 2002 – 2004.
6. The related party footnote tries to explain these transactions. Don't you think that several interested companies, be they stock analysts, journalists, hedge fund managers, etc., are busy trying to discover the reason Skilling left? Don't you think their smartest people are pouring over that footnote disclosure right now? I can just hear the discussions – "It looks like they booked a \$500 million gain from this related party company and I think, from all the undecipherable ½ page on Enron's contingent contributions to this related party entity, I think the related party entity is capitalized with Enron stock." "No, no, no, you must have it all wrong, it can't be that, that's just too bad, too fraudulent, surely AA&Co wouldn't let them get away with that?" "Go back to the drawing board, it's got to be something else. But find it!" "Hey, just in case you might be right, try and find some insiders or 'redeployed' former employees to validate your theory."

Summary of Raptor oddities:

1. The accounting treatment looks questionable.

- a. Enron booked a \$500 mm gain from equity derivatives from a related party.
- b. That related party is thinly capitalized, with no party at risk except Enron.
- c. It appears Enron has supported an income statement gain by a contribution of its own shares.

One basic question: The related party entity has lost \$500 mm in its equity derivative transactions with Enron. Who bears that loss? I can't find an equity or debt holder that bears that loss. Find out who will lose this money. Who will pay for this loss at the related party entity?

If it's Enron, from our shares, then I think we do not have a fact pattern that would look good to the SEC or investors.

2. The equity derivative transactions do not appear to be at arms length.

- a. Enron hedged New Power, Hanover, and Avici with the related party at what now appears to be the peak of the market. New Power and Avici have fallen away significantly since. The related party was unable to lay off this risk. This fact pattern is once again very negative for Enron.
- b. I don't think any other unrelated company would have entered into these transactions at these prices. What else is going on here? What was the compensation to the related party to induce it to enter into such transactions?

3. There is a veil of secrecy around LJM and Raptor. Employees question our accounting propriety consistently and constantly. This alone is cause for concern.

- a. Jeff McMahon was highly vexed over the inherent conflicts of LJM. He complained mightily to Jeff Skilling and laid out 5 steps he thought should be taken if he was to remain as Treasurer. 3 days later, Skilling offered him the Chief Commercial Officer spot at a new venture, Enron Networks and never addressed the 5 steps with him.
- b. Cliff Baxter complained mightily to Skilling and all who would listen about the inappropriateness of our transactions with LJM.
- c. I have heard one manager level employee from the principle investments group say "I know it would be devastating to all of us, but I wish we would get caught. We're such a crooked company." The principle investments group hedged a large number of their investments with Raptor. These people know and see a lot. Many similar comments are made when you ask about these deals. Employees quote our CFO as saying that he has a handshake deal with Skilling that LJM will never lose money.

4. Can the General Counsel of Enron audit the deal trail and the money trail between Enron and LJM/Raptor and its principals? Can he look at LJM? At Raptor? If the CFO says no, isn't that a problem?

Condor and Raptor work:

1. Postpone decision on filling office of the chair, if the current decision includes CFO and/or CAO.
2. Involve Jim Derrick and Rex Rogers to hire a law firm to investigate the Condor and Raptor transactions to give Enron attorney client privilege on the work product. (Can't use V&E due to conflict – they provided some true sale opinions on some of the deals).
3. Law firm to hire one of the big 6, but not Arthur Andersen or PricewaterhouseCoopers due to their conflicts of interest: AA&Co (Enron); PWC (LJM).
4. Investigate the transactions, our accounting treatment and our future commitments to these vehicles in the form of stock, N/P, etc..
For instance: In Q3 we have a \$250 mm problem with Raptor 3 (NPW) if we don't 'enhance' the capital structure of Raptor 3 to commit more ENE shares. By the way: in Q1 we enhanced the Raptor 3 deal, committing more ENE shares to avoid a write down.
5. Develop clean up plan:
 - a. Best case: Clean up quietly if possible.
 - b. Worst case: Quantify, develop PR and IR campaigns, customer assurance plans (don't want to go the way of Salomon's trading shop), legal actions, severance actions, disclosure.
6. Personnel to quiz confidentially to determine if I'm all wet:
 - a. Jeff McMahon
 - b. Mark Koenig
 - c. Rick Buy
 - d. Greg Whalley

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Assessment - 04/12/55

ENRON MASTER ASSET LIST
Total Asset Inventory
As of 3/31/2001
(\$ millions)

**Tentative & Preliminary
NOT FOR USE IN ANY GAIN/LOSS CALCULATION**

Sector	Business Unit	Asset	Responsible Party	Status/Priority	Vehicle	Holding	Equity / Conv / Asset Class	Strategic Partner	Book Value	On B/S Assets	Market Value
Wholesale	Global Finance	Early in ECG		Keep - ECF structure	Chester	FAS 125	Equity	Strategic		517	\$17.0
Wholesale	TPL Dry Stream	TPL Dry Stream		2002 Medium	Riverside 6	FAS 125	Strategic			188	\$58.0
Wholesale	TPL Dry Stream	TPL Dry Stream		2002 Medium	Riverside 6	FAS 125	Strategic			72	\$2.0
Wholesale	TFS on TPL	TFS on TPL		2002 Medium	McGinnis F	FAS 125	Strategic			2	\$2.0
Wholesale	Riverside 5 - Green Europe Power 5	Riverside 5 - Green Europe Power 5		2002 Medium	Constar	FAS 125	Strategic			2	\$2.0
Wholesale	United Nations & Michigan Power Projects	United Nations & Michigan Power Projects		2002 High	Constar	FAS 125	Strategic			200	\$25.0
Americas	COAS	COAS	Josy	2002 Active Negotiation	Capgemini K	FAS 125	Strategic			31	\$1.0
Wholesale	NW Warrants	NW Warrants	Methueller	Unlikely	McGuire D	FAS 125	Strategic			91	\$0.5
EES	NW Warrants	NW Warrants	Methueller	Unlikely	McGuire D	FAS 125	Strategic			30	\$0.5
EES	NW Warrants	NW Warrants	Methueller	Unlikely	McGuire D	FAS 125	Strategic			30	\$0.5
EES	Monetization of Poughon Note	Monetization of Poughon Note	Methueller	Unlikely	Blackburn	FAS 125	Strategic			46	\$0.0
EES	EURO Capital	EURO Capital	Kiloh	Unlikely	Blackburn	FAS 125	Strategic			46	\$0.0
EUS	EURO Capital	EURO Capital	Kiloh	Unlikely	Blackburn	FAS 125	Strategic			46	\$0.0
EUS	ANG US&CAN Flow	ANG US&CAN Flow	Gairland	2002 High	Anco	FAS 125	Strategic			72	\$6.0

Subtotals
Valuation problem

2 1,881 1,959,624 \$1,033.81

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8/15/01 Wall St. J. A3
2001 WL-WJSJ 2872737

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Wednesday, August 15, 2001

Enron's CEO, Skilling, Quits Two Top Posts
By Jonathan Friedland
Staff Reporter of The Wall Street Journal

Enron Corp.'s Jeffrey K. Skilling, an important architect of the concern's transformation from a gas-pipeline company into the nation's major energy trader, resigned as president and chief executive officer.

Enron Chairman Kenneth Lay will assume Mr. Skilling's duties and has agreed to stay on through the end of 2005. Mr. Lay had been Enron's CEO for 15 years prior to January, when Mr. Skilling was named to the post.

In an interview, Mr. Lay and Mr. Skilling said the executive's resignation was a personal decision and that it didn't portend any change in Enron's strategy. Mr. Skilling, who also resigned from his board seat, will remain a consultant to the Houston energy powerhouse and won't receive severance pay.

Analysts suggested that the sharp decline in Enron's stock over the past year may have spurred Mr. Skilling's departure. Since January, the stock has fallen 49% as the federal government has tried to curb high power prices that have helped Enron achieve record earnings. Investors have also cooled on Enron's aggressive push into broadband telecommunications markets, a strategy identified with Mr. Skilling. (Broadband refers to the high-speed Internet connections being installed in residences by cable and phone companies.)

The announcement of Mr. Skilling's departure came after the close of major markets yesterday. As of 4 p.m. in composite trading on the New York Stock Exchange, Enron was up 78 cents at \$42.93.

Mr. Skilling, 47 years old, said his decision was related to "family matters," but didn't elaborate. "In terms of timing, I feel the company is in good shape," he added. Mr. Lay, 59, said that Mr. Skilling's departure had "absolutely nothing to do"

with problems at the company or the fall in the stock price.

There are "no accounting issues, trading issues or reserve issues," Mr. Lay later told investors during a conference call. "I can honestly say the company is in the strongest shape it's ever been in."

The departure of Mr. Skilling comes only eight months after he took over as chief executive from Mr. Lay. Previously, Mr. Skilling had been Enron's president and chief operating officer and several years prior to that had advised Mr. Lay as a McKinsey & Co. consultant. The two men are largely credited with building Enron into a formidable commodities market player over the past decade, trading everything from electricity to weather derivatives. In doing so, Enron has shed many of its power production assets, a tactic advocated by Mr. Skilling. Mr. Skilling's resignation is particularly surprising because he has a reputation as a workaholic who recently moved into a new office in the middle of Enron's new trading floor atop a 40-story tower in Houston.

Mr. Skilling's promotion earlier this year came in the wake of the resignations last year of several key Enron managers, including Rebecca Mark, a high-profile executive who had headed up the firm's Azurix Corp. water unit.

Mr. Lay insisted that Enron has a "very deep bench" that includes "two or three people who will be CEO-ready in the not too distant future." In the conference call, Mr. Lay cited, among others, Mark Frevert, chairman of Enron's wholesale trading arm; Andrew Fastow, Enron's chief financial officer; and Richard Causey, the company's chief accounting officer, as potential candidates to eventually assume the No. 2 job at the company.

---- INDEX REFERENCES ----

COMPANY (TICKER): Enron Corp. (ENE)

NEWS SUBJECT: Boards of Directors; Management Moves; Corporate Actions; Corporate/Industrial News; Corporate Officers; Management Issues; Management Issues; Personnel Announcements; Dow Jones Total Market Index; Wall Street Journal; English language content (BRD)

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Page 2

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ENGL)

MARKET SECTOR: Utilities; Industrial (UTI
IDU)

INDUSTRY: Gas Utilities; Industrial &
Commercial Services; Other; General Industrial &
Commercial Services; All Industrial & Commercial
Services (GAS ISO ICS SVC)

PRODUCT: Oil & Gas; Utilities; Industrial
Goods & Services (DGA DUT DIG)

REGION: North America; Texas; United
States; United States; Southern U.S.; North
American Countries (NME TX US USA USS
NAMZ)

LAYOUT CODES: Large Majors; Major
Business News; Business and Finance Column
Stories (LMJ MJR TPT)

Word Count: 550

8/15/01 WSJ A3

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To Rex Rogers
8/17/01

14

Dear Mr. Lay,

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SW(HSE&EC)0003

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 - b. Mark Koenig
 - c. Rick Buy
 - d. Greg Whalley

15

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ourgeois-Galloway, Hilda

From: Votaw, Courtney
 Sent: Friday, August 17, 2001 8:59 AM
 To: Olson, Cindy
 Cc: Kean, Steven J.
 Subject: FW: Questions for Employee meeting

Cindy- below is Rick Causey's answer to the question regarding Raptor.

Thanks,
 Courtney

-----Original Message-----

From: Clark, Mary
 Sent: Friday, August 17, 2001 8:57 AM
 To: Votaw, Courtney
 Subject: FW: Questions for Employee meeting

-----Original Message-----

From: Causey, Richard
 Sent: Wednesday, August 15, 2001 6:08 PM
 To: Clark, Mary
 Cc: Kean, Steven J.; Derrick Jr., James
 Subject: Questions for Employee meeting

Please see below for my responses to the two questions passed to me for tomorrow's meeting.

Arthur Andersen Question:

Our outside auditors, Arthur Andersen, were not charged with any criminal offense. They did recently settle a lawsuit with the Securities and Exchange Commission regarding their audit of Waste Management for the years 1992 - 1996. The terms of the settlement included a \$7 million payment and certain disciplinary actions by the SEC. As a part of the settlement, Andersen neither admitted or denied guilt related to the SEC's claims. This audit was conducted by their Chicago office, NOT the Houston office of the Firm.

Unfortunately, in today's environment, every major accounting firm, just like every major corporation, has litigation with other parties, including regulatory bodies. We discussed this matter with Andersen and were convinced that there was nothing unusual about this case nor anything that would impact their audit of Enron. Additionally, as these sorts of actions are not rare, we concluded that continuing to use Andersen as our auditor in no way damaged our reputation. Management and the Audit Committee of the Board will continue to assess Andersen's performance on an annual basis.

Question regarding Raptor and Condor:

NOTE: I would not read this question. I would simply state that there was a question submitted regarding structured transactions and the use of contingent Enron equity (that is equity that might have to be issued in the future).

RESPONSE: We do from time to time use contingent Enron equity in transactions. However, to the extent that the current economics of such a transaction would imply that we would issue that equity in the future, we must count that equity as issued and outstanding currently. To state it more clearly, all transactions that use Enron equity currently or in the future are fully accounted for today. All future commitments have been considered and reflected in calculating earnings per share and shares outstanding today.

so it's a value now :

BUT EVENTUALLY IT'S
 WHAT A STORM
 IT COMES BACK TO ENR

BUT WHAT ABOUT THE VALUE LOSS WE HAVE THE SH'S FOR THAT P!!

FROM
 CINDY TO
 ME

MON.
 8/20/01
 9 AM

Voice mail from Cindy:
 Here is what Ken Lay
 got from Causey -
 did this answer

Sherron's concerns?
 If not I'll make myself
 available to meet with
 her.

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Date: August 21, 2001
 Subject: Client Accounting Inquiry
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To: The Files
 From: James A. Hecker
 Date: August 21, 2001
 Subject: Client Accounting Inquiry

Yesterday I received an ostensibly social call from Sherron Smith Watkins, a Houston office alum who works in the CFO's group at our large audit client, Enron. After some small talk about current events such as the job market and last week's CEO resignation at Enron, she asked me if I knew much about some of Enron's recent structured transactions. I told her I did not, having never worked on the Enron job, but that I had general knowledge about many of the related issues from my work on other marketing and trading clients. Although she seemed initially reluctant to get into the details with me, an Arthur Andersen audit partner, she obviously wanted a "sounding board" with whom she could discuss certain of her concerns related to a set of Enron transactions, and I told her I'd be happy to listen.

Sherron then told me she was concerned about the propriety of accounting for certain related-party transactions. The transactions in question were, based on our discussions, with an entity with a name something like "LJM", which was at the time of the transactions at least partly owned by Andy Fastow, Enron's CFO (and her current boss). She later told me that Fastow's interest in "LJM" has since been sold to Michael Copper, an Enron alum. I also understood by her tone that the potentially sensitive transactions were done within the last couple of years. Sherron seemed even more agitated about the transactions' accounting because she perceived the related footnote disclosures in the company's consolidated financial statements were difficult to understand and did not tell the "whole story."

After some investigative work since her return to Fastow's group, she reportedly had discussed some of her concerns with Enron's general counsel office (she did not name the individual). That individual had assured her that EA and Enron's external counsel (Vinson Kelkins) had reviewed the transactions' accounting and financial statement disclosures and that they were sure there was no impropriety. At that point, I mentioned to Sherron that many people inside and outside the company assume we have seen every small transaction and OK'd the accounting, which for many reasons, potentially including immateriality, is often not true. Sherron understood this, but assured me the dollars involved (approximately \$500 million) were material, even to a company as large as Enron. Based both on the type and size of the transactions, Sherron told me she was concerned enough about these issues that she was going to discuss them with Ken Lay, Enron's Chairman, on Wednesday, August 22, 2001.

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Based on our following discussions, her perceptions and concerns were:

- In summary, Sherron couldn't understand how Enron could, with its own capital stock, repeatedly add to the collateral underlying an obligation owed to Enron from a related party without recognizing in its financial statements either a) the related Enron stock distributions or contributions to that related party, or b) the high-tech investment losses such related-party obligation was supposedly protecting against.
- LJM, an investment company formerly owned at least partially by Andy Fastow (CFO of Enron), was formed to enter into various structured transactions with Enron. I understood from Sherron that one such transaction involved the hedging of certain of Enron's investments in high-tech companies. Since these high-tech investment values have declined, Enron's hedge from LJM has increased in value, thus putting LJM on the hook for a potentially large liability to Enron. Supporting this hedging arrangement, Sherron described to me that LJM was initially capitalized in large part with Enron stock, which has also significantly declined in value since yearend 2000. Well after LJM's formation, and in response to this resulting reduction in total LJM asset value, her investigative inquiries had pieced together a very troublesome scenario. She perceived that Enron was putting additional Enron stock into LJM (the exact mechanism -- sales, contributions, exchanges or otherwise -- wasn't clear from our conversation), primarily to bolster LJM's perceived ability to repay obligations that will be owed to Enron at some future date. However, according to Sherron, these additional Enron stock contributions/issues to LJM did not appear to be recorded on Enron's books. I informed Sherron I could not comment because I was obviously unfamiliar with the facts behind both the formation and ongoing operations of LJM.
- She asserted that the Enron financial-statement disclosures related to the Fastow investment-company relationships and transactions were (putting it kindly) hard to understand and incomplete. A \$500 million gain from the LJM contract(s) was purportedly identified in interim financial disclosures. However, according to Sherron, it was not clear in the disclosures that the \$500 million gain on Enron's books from the Fastow agreement (through LJM) actually offset other losses on Enron's investments in various high-tech investments. The potential collateralization/collectibility issues behind the LJM obligation that Sherron perceived are a problem were also not spelled out. I did not attempt to confirm these disclosure assertions by pulling Enron's Form 10-K or 10-Q's (but see documentation of engagement team discussions below).
- She also asserted that, at the time of the recent sale to Mr. Copper, she had mentioned to others that LJM must have had "very limited" stockholders' equity and must have been an unsuccessful investment for its owner(s). I inferred that she thought Mr. Copper's purchase price must have been relatively small, for one or more of the following reasons: a) LJM owed so much to Enron, or b) the company had so few other assets or c) it only had assets such as Enron stock that had declined so much in value since LJM's inception. However, she also asserted that she had been told that most, if not all, of LJM's equity had been distributed to its shareholders (including Fastow and CIBC, an independent banking organization unrelated to Enron) concurrently, or shortly after, its original formation.

Based on our discussion, I told her she appeared to have some good questions. I emphasized that I was uninvolved in the issues or event and therefore unable to give her any definitive advice or conclusions on

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these matters, especially without knowing all the facts, which she understood. However, I encouraged her to discuss these issues with anyone in the company who could satisfy her about the accounting and disclosures related to these transactions. I told her that I admired her "stand-up" attitude and that corporate introspection about these sorts of accounting and reporting issues often was very healthy and should not be suppressed. She neither continued to update me about her discussions with Ken (as I do) nor requested anything further from me.

Immediately after my discussion with Sherran on August 20, I relayed the essence of her asserted concerns to Bill Swanson (ABA practice director), Dave Duncan (Enron engagement partner) and Deb Cash (a partner on several of the trading segments at Enron). On August 21, we all added Mike Odom, practice director, to the discussions, and agreed to consult with our firm's legal advisor about what actions to take in response to Sherran's discussion of potential accounting and disclosure issues with me.

Copies To:

Debra A. Cash
David B. Duncan
Michael M. Lowther
Michael C. Odom
William E. Swanson

-----Original Message-----

From: Kaminski, Vince J
 Sent: Wednesday, August 22, 2001 2:45 PM
 To: Zipfer, Rudi
 Cc: Bharati, Rakesh; Kaminski, Vince J
 Subject: RE: Raptor Update

Rudi,

Makes sense. Let's meet with Gordon. I shall ask Rakesh to set up a meeting.

Another question: do you know if the collar was hedged by the equity desk?

I would expect a cash event related to the exercise of the put that will affect Enron's liquidity at some point.

Vince

-----Original Message-----

From: Zipfer, Rudi
 Sent: Wednesday, August 22, 2001 1:58 AM
 To: Kaminski, Vince J
 Subject: FW: Raptor Update

-----Original Message-----

From: Zipfer, Rudi
 Sent: Wednesday, August 22, 2001 7:57 AM
 To: Yuan, Ding
 Cc: Fort, David; Murphy, Ted
 Subject: Raptor Update

Ding --

As ENE stock and the stock market in general has been hammered lately, perhaps it is a good time to call Gordon McKillup and determine how the various Raptor portfolios are postured.

As you may recall from the prior analysis, they placed a option collar around the collateral (ENE stock). At that time, they felt that it would support the portfolio to around \$20 / share. **The main assumption, however, was that the assets in the Raptor structure would not devalue.** Of course, for the public equities such as AVIC! this is simply not the case. At the time of the initial analysis in March, AVIC! traded at roughly \$17 / share and it now trades at \$3.65 / share on approximately 1.1 million shares. OOPS!

Rudi

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Dilg, Joe

From: Jordan, Carl
 Sent: Friday, August 24, 2001 7:02 PM
 To: Butcher, Sharon (Enron)
 Subject: Confidential Employee Matter

ATTORNEY CLIENT PRIVILEGED COMMUNICATION

Sharon:

Per your request, the following are some bullet thoughts on how to manage the situation with the employee who made the sensitive report.

1. I agree that it is a positive that she has requested reassignment to another department. Assuming a suitable position can be found, I recommend documenting in memo form that the transfer is being effected per her request. This would be worded to convey that the company has considered and decided to accommodate her request for reassignment. See comments below re additional items to be addressed in the memo.
2. I suggest that the memo also name a designated company officer for her to contact in the unlikely future event that she believes she is being retaliated against for having made the report. Case law suggests that she then will have the burden of reporting any perceived retaliation and allowing the company a reasonable opportunity to correct it before quitting and asserting a constructive discharge. (Note: If there is any chance that the decision might be made in the future to discharge the employee for making the report - e.g., if the company concludes that the allegations were not made in good faith - then this assurance probably should not be given, at least until later when (if) the company is satisfied that the employee was not acting in bad faith or otherwise improperly.)
3. The memo should contain language that conveys that the other terms of her employment - specifically, its at-will status - remains unchanged. This is to avoid any future claim that the understandings surrounding the transfer constitute a contractual obligation of some sort.
4. The new position, as we discussed, should have responsibilities and compensation comparable to her current one, to avoid any claim of constructive discharge.
5. As we discussed, to the extent practicable, the fact that she made the report should be treated as confidential.
6. The individual or individuals who are implicated by her allegations should be advised to treat the matter confidentially and to use discretion regarding any comments to or about the complaining employee. They should be advised that she is not to be treated adversely in any way for having expressed her concerns.
7. You indicated that the officer in charge of the area to which the employee may be reassigned would probably need to be advised of the circumstances. I suggest he be advised at the same time that it is important that she not be treated adversely or differently because she made the report. And that the circumstances of the transfer are confidential and should not be shared with others.

You also asked that I include in this communication a summary of the possible risks associated with discharging (or constructively discharging) employees who report allegations of improper accounting practices:

1. Texas law does not currently protect corporate whistleblowers. The supreme court has twice declined to create a cause of action for whistleblowers who are discharged; however, there were special factors present in both cases that weighed against the plaintiffs and the court implied that it might reach a different conclusion under other circumstances.
2. Regardless of the whistleblower issue, there is often a risk of a Sabine Pilot claim (i.e., allegation of discharge for refusing to participate in an illegal act). Whistleblower cases in Texas commonly are pled or replied as Sabine Pilot claims - it is often an easy leap for the plaintiff to make if she had any involvement in or duties relating to the alleged improper conduct. For example, some cases say that if an employee's duties involve recording accounting data that she knows to be misleading onto records that are eventually relied on by others in preparing reports to be submitted to a federal agency (e.g., SEC, IRS, etc.), then the employee can be subject to criminal prosecution even tho she did not originate the misleading data and does not prepare the actual document submitted to the government. Under such circumstances, if the employee alleges that she was discharged for refusing to record (or continuing the practice of recording) the allegedly misleading data, then she has stated a claim under the Sabine Pilot doctrine.
3. As we discussed, there are a myriad of problems associated with Sabine Pilot claims, regardless of their merits, that involve allegations of illegal accounting or related practices. One is that the company's accounting practices and books and records are fair game during discovery - the opposition typically will request production of volumes of sensitive material. Another problem is that because accounting practices often involve judgments in gray areas, rather than non-judgmental applications of black-letter rules, there are often genuine disputes over whether a company's practice or a specific report was materially misleading or complied with some statutory or regulatory requirement. Third, these are typically jury cases - that means they are decided by lay persons when the legal compliance issues are often confusing even to the lawyers and

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experts. Fourth, because of the above factors, they are very expensive and time consuming to litigate.

4. In addition to the risk of a wrongful discharge claim, there is the risk that the discharged employee will seek to convince some government oversight agency (e.g., IRS, SEC, etc.) that the corporation has engaged in materially misleading reporting or is otherwise non-compliant. As with wrongful discharge claims, this can create problems even tho the allegations have no merit whatsoever.

These are, of course, very general comments. I will be happy to discuss them in greater detail at your convenience.

W. Carl Jordan
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Houston, Texas 77002
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October 15, 2001

Privileged and Confidential:
Attorney-Client Communication
and Attorney Work Product

Mr. James V. Derrick, Jr.
Executive Vice President and General Counsel
Enron Corp.
1400 Smith Street
Houston, Texas 77002

Re: Preliminary Investigation of Allegations of an Anonymous Employee

Dear Jim:

You requested that Vinson & Elkins L.L.P. ("V&E") conduct an investigation into certain allegations initially made on an anonymous basis by an employee of Enron Corp. ("Enron"). Those allegations question the propriety of Enron's accounting treatment and public disclosures for certain deconsolidated entities known as Condor or Whitewing and certain transactions with a related party, LJM, and particularly transactions with LJM known as Raptor vehicles. The anonymous employee later identified herself as Sherron Watkins, who met with Kenneth L. Lay, Chairman and Chief Executive Officer of Enron, for approximately one hour to express her concerns and provided him with materials to supplement her initial anonymous letter. This letter constitutes our report with respect to our investigation and sets forth the scope of our review, the activities undertaken, the identification of primary concerns, and our analysis and conclusions with respect to those concerns.

I. Scope of Undertaking

In general, the scope of V&E's undertaking was to review the allegations raised by Ms. Watkins' anonymous letter and supplemental materials and to conduct an investigation to determine whether the facts she has raised warrant further independent legal or accounting review.

By way of background, some of the supplemental materials provided by Ms. Watkins proposed a series of steps for addressing the problems she perceived, which included retention of independent legal counsel to conduct a wide-spread investigation, and the engagement of independent auditors, apparently for the purpose of analyzing transactions in detail and opining as to the propriety of the accounting treatment employed by Enron and its auditors Arthur Andersen

HOUSTON AUSTIN BEIRING DALLAS DENV CO DICKIN NEW YORK SINGAPORE WASHINGTON DC

Confidential Treatment Requested By Wilmer, Cutler & Pickering

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L.L.P. ("AA"). In preliminary discussions with you, it was decided that our initial approach would not involve the second guessing of the accounting advice and treatment provided by AA, that there would be no detailed analysis of each and every transaction and that there would be no full scale discovery style inquiry. Instead, the inquiry would be confined to a determination whether the anonymous letter and supplemental materials raised new factual information that would warrant a broader investigation.

2. Activities Undertaken

Our preliminary investigation included the review of selected documents provided to us by Enron and from our internal sources, interviews with key Enron and AA personnel and discussions with V&E attorneys who are familiar with legal issues addressed by Enron in connection with the subject transactions. The focus, of course, was to identify background information, disclosures and personal views with respect to the Condor/Whitewing and Raptor vehicles and Enron's relationship with LJM.

Documents reviewed in this process included excerpts of meetings of Enron's Board of Directors, including minutes of meetings of the Audit and Finance Committees of the Board, various public filings of Enron (annual reports, 10-K's, 10-Q's), documents relating to Enron's transactions with LJM, including Deal Approval Sheets and Investment Summaries, and various miscellaneous materials in the nature of presentations and memoranda. The focus of our document review was to determine whether the requisite approval of the transactions referenced in the anonymous letter had been obtained from Enron's Board and its committees, the nature of the disclosures made with respect to the transactions and relationships questioned by the anonymous letter and supplemental materials and to provide general background information.

Interviews were also conducted with various Enron personnel based either on their connection with the transactions involving Condor/Whitewing, LJM and Raptor, or because they were identified in materials provided by Ms. Watkins as persons who might share her concerns. Those persons interviewed were: Andrew S. Fastow, Executive Vice President and Chief Financial Officer; Richard B. Causey, Executive Vice President and Chief Accounting Officer; Richard B. Buy, Executive Vice President and Chief Risk Officer; Greg Whalley, President and Chief Operating Officer (formerly Chairman of Enron Wholesale); Jeffrey McMahon, President and Chief Executive Officer, Enron Industrial Markets (formerly Treasurer of Enron); Jordan H. Mintz, Vice President and General Counsel of Enron Global Finance; Mark E. Koenig, Executive Vice President, Investor Relations; Paula H. Rieker, Managing Director, Investor Relations; and Sherron Watkins, the author of the anonymous letter and supplemental materials.

Interviews were also conducted with David B. Duncan and Debra A. Cash, both partners with AA assigned to the Enron audit engagement.

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In addition to the foregoing formal interviews, discussions were likewise held with Rex Rogers, Vice President and Assistant General Counsel of Enron, and Ronald L. Astin of V&E regarding general background information and the identification of specific issues relating to the matters raised by the anonymous letter and supplemental materials.

After completing interviews with all of the foregoing individuals, supplemental interviews were conducted with Andrew S. Fastow and Richard B. Causey of Enron and David B. Duncan and Debra A. Cash of AA to confirm certain information learned in the overall interview process.

As we initially discussed, we limited our interviews (with the exception of the AA partners mentioned above) to individuals still employed with Enron. Therefore, we did not interview individuals no longer with Enron mentioned in the anonymous letter or supplemental materials or any third party related to LJM.

Identification of Primary Concerns

Our preliminary investigation revealed four primary areas of concern expressed by Ms. Watkins' anonymous letter and supplemental materials. Accordingly, our document review and interview process focused on those areas of concern and whether the facts raised by Ms. Watkins' anonymous letter and supplemental materials presented any new information as to those matters that may warrant further independent investigation. Those areas of primary concern are as follows:

- a. the apparent conflict of interests by Mr. Fastow's ownership in LJM;
- b. the accounting treatment accorded the Condor and Raptor structures in Enron's financial statements;
- c. the adequacy of public disclosures of the Condor and Raptor transactions; and
- d. the potential impact on Enron's financial statements as a result of the Condor/Whitewing and Raptor vehicles because of the decline in value of the merchant investments placed in those vehicles as well as the decline in the market price of Enron common stock.

Our findings and conclusions with respect to each of these areas of concern are set forth separately below.

4. Conflict of Interest

Mr. Fastow actually organized two separate investment partnerships. The first, LJM-Cayman L.P. ("LJM1"), was launched in June, 1999. The LJM concept appears to have been fully discussed

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with the Office of the Chairman and was presented to and approved by Enron's Board of Directors at a special meeting on June 28, 1999. That approval included the Board's waiver of Enron's code of ethics to permit Mr. Fastow to act as the general partner of LJM1. The primary purpose for the organization of LJM1 was to establish a non-Enron entity with which Enron could enter into a swap transaction to hedge its investment in Rhythms NetCommunications. It was likewise recognized that LJM might negotiate to purchase additional assets in Enron's merchant portfolio. LJM raised \$16 million in outside equity, invested in a Raptor vehicle that entered into a swap for Rhythms NetCommunications and also purchased a sufficient portion of Enron's equity in the Curitiba power plant in Brazil to allow Enron to deconsolidate that project.

The second investment partnership - LJM2 Co-Investment, L.P. ("LJM2") - was organized in October, 1999. At an October 11, 1999 meeting of the Finance Committee of the Board of Directors, Enron's activities with LJM1 were reviewed and the proposal for transacting business with LJM2 was discussed and approved. The Board of Directors, at its meeting on October 12, 1999, waived Enron's code of ethics to permit Mr. Fastow to serve as general partner of LJM2 and established guidelines for Enron's transaction of business with LJM2. Those included: (i) no obligation to do transactions between Enron and LJM2; (ii) the Chief Accounting and Risk Officers would review, and where appropriate, approve transactions with LJM2; (iii) there would be an annual review by the Board's Audit Committee of completed transactions or recommendations, as appropriate; and (iv) there would be an annual review as to the application of the Company's code of ethics to assure that such transactions would not adversely affect the best interests of the Company.

The LJM2 partnership raised \$149 million in equity from investors ranging from commercial and investment banks, insurance companies, public and private pension funds and high net worth individuals. LJM2 has engaged in approximately 21 separate transactions with Enron.

Pursuant to the Board's guidelines, special procedures were adopted and utilized for the transaction of business with LJM. Those procedures included the preparation of a special LJM2 Deal Approval Sheet ("DASH") that would be prepared for every Enron/LJM2 transaction generally describing the nature of the commercial transaction and the relevant economics. Approval was also required by a variety of senior level commercial, technical and commercial support professionals. DASH was supplemented by an LJM approval process checklist testing for compliance with Board directives for transactions with LJM2, including questions addressing the following:

- alternative sales options and counter-parties.

The initial LJM partnership was then referred to as "LJM1." LJM1 and LJM2 will be referred to jointly as "LJM" unless there is a particular reason to distinguish between the two investment partnerships.

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- determination that the transaction was conducted at arm's length.
- disclosure obligations, and
- review of the transaction by Enron's Office of the Chairman, Chief Accounting Officer and Chief Risk Officer.

As part of these procedures, it also appeared that several additional controls were adhered to. These included LJM senior management professionals never negotiating on behalf of Enron; Enron professionals negotiating with LJM reporting to senior Enron professionals other than Mr. Fastow; Enron Global Finance commercial, legal and accounting monitoring of compliance with procedures and controls for regular updates for Chief Accounting and Risk Officers, and internal and outside counsel regularly consulted regarding disclosure obligations and review of any such disclosures.

Based on our review of the LJM Deal Approval Sheets and accompanying checklist, it appears that the approval procedures were generally adhered to. Transactions were uniformly approved by legal, technical and commercial professionals as well as the Chief Accounting and Risk Officers. In most instances, there was no approval signature for the Office of the Chairman except for several significant transactions. It also appeared that the LJM transactions were reviewed by the Audit Committee on an annual basis. At the February 7, 2000 meeting of the Audit Committee, all LJM transactions occurring prior to that date were reviewed. A review of all the LJM transactions during the following year was made at the February 12, 2001 meetings of both the Audit and Finance Committees.

Based on our interviews with various Enron representatives, and notwithstanding the foregoing guidelines and procedures that were adopted, concerns were expressed about the awkwardness in LJM's operating within Enron and two potential conflicts of interest. The awkwardness arose from the fact that LJM's professionals - primarily individuals reporting to Mr. Fastow and Michael Koppers - were also Enron employees who officed in Enron space and worked among Enron employees. Transactions were negotiated between Enron employees acting from Enron and other Enron employees acting for LJM. Within Enron, there appeared to be an air of secrecy regarding the LJM partnerships and suspicion that those Enron employees acting for LJM were receiving special or additional compensation. Although there was a Services Agreement between Enron and LJM pursuant to which LJM compensated Enron for the services of Enron personnel and use of Enron's facilities, this fact did not quell the awkwardness of the Enron employees "wearing two hats." Much of this awkwardness should be eliminated on a going-forward basis, however, by reason of Mr. Fastow's sale of his ownership interest in LJM effective July 31, 2001 to Mr. Koppers (who resigned from Enron prior to the transaction) and the complete separation of LJM's employees and facilities from Enron.

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The first area of potential conflict of interest voiced by several individuals was the risk that undue pressure may be placed on Enron professionals who were negotiating with LJM because those individuals would ultimately have their performance evaluated for compensation purposes by Mr. Fastow in his capacity as Chief Financial Officer. In particular, Jeffrey McMahon stated that while he was Treasurer of Enron he discussed this conflict directly with Mr. Fastow and Jeffrey Skilling, and that the conflict was not resolved prior to his acceptance of a new position within Enron. Mr. McMahon stated, however, that he was aware of no transaction where Enron suffered economic harm as a result of this potential conflict.

The second potential conflict of interest identified by several individuals was that investors in LJM may have perceived that their investment was required to establish or maintain other business relationships with Enron. Although no investors in LJM were interviewed, both Mr. Fastow and Mr. McMahon stated unequivocally that they told potential investors that there was no tie-in between LJM investment and Enron business. Moreover, Mr. Fastow stated that Merrill Lynch was paid a fee for marketing LJM2 partnership interests and that a number of investors, such as private and public pension funds and high net worth individuals, had no business relationship with Enron.

In summary, none of the individuals interviewed could identify any transaction between Enron and LJM that was not reasonable from Enron's standpoint or that was contrary to Enron's best interests. Conversely, the individuals interviewed were virtually uniform in stating that LJM provided a convenient alternative equity partner with flexibility that permitted Enron to close transactions that otherwise could not have been accomplished. Moreover, both the awkwardness and potential for conflict of interest should be eliminated on a going-forward basis as a result of Mr. Fastow's divestment of his ownership interest in the LJM partnerships.

5. Accounting Issues

As stated at the outset, the decision was made early in our preliminary investigation not to engage an independent accounting firm to second guess the accounting advice and audit treatment provided by AA. Based on interviews with representatives of AA and Mr. Causey, all material facts of the Condor/Whitewing and Raptor vehicles, as well as other transactions involving LJM, appeared to have been disclosed to and reviewed by AA. In this regard, AA reviewed the LJM solicitation materials and partnership agreement to assure that certain safeguards were provided that would permit LJM to be a source of third party equity in transactions conducted with Enron. AA likewise reviewed specific transactions between Enron and LJM to assure that LJM had sufficient equity in the transaction to justify the accounting and audit principles being applied.

The relationship between Enron and AA was an open one and, according to Mr. Causey, Enron consults AA early and often on accounting and audit issues as they arise. AA concurs with this statement, but points out that in certain of its accounting and audit treatment, it must rely on

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Enron's statement of the business purpose for specific transactions and Enron's valuation of assets placed in the Condor/Whitewing and Raptor structures.

Enron and AA representatives both acknowledge that the accounting treatment on the Condor/Whitewing and Raptor transactions is creative and aggressive but no one has reason to believe that it is inappropriate from a technical standpoint. In this regard, AA consulted with its senior technical experts in its Chicago office regarding the technical accounting treatment on the Condor/Whitewing and Raptor transactions, and the AA partners on the Enron account consulted with AA's senior practice committee in Houston on other aspects of the transactions. Enron may also take comfort from AA's audit opinion and report to the Audit Committee which implicitly approves the transactions involving Condor/Whitewing and Raptor structures in the context of the approval of Enron's financial statements.

Following our initial interview with AA representatives you agreed with us that it was desirable and appropriate to provide them with Ms. Watkins' anonymous letter and supplemental materials so that AA could comment directly on specific allegations contained in those materials. AA identified two allegations in particular that, if accurate, would affect their accounting and audit treatment. Those allegations were, in effect: (i) There was a handshake deal between Mr. Skilling and Mr. Fastow that LJM would never lose money on any transaction with Enron; and (ii) LJM received a cash fee in the Raptor transactions that completely recouped its investment and profit.

Mr. Fastow adamantly denies any agreement with Mr. Skilling or anyone else that LJM would never lose money in transactions with Enron, and he recognized that such an agreement would defeat the accounting treatment that was the very objective for the formation of LJM. Mr. Causey is unaware of any such agreement and has seen no evidence of it.

Both Mr. Fastow and Mr. Causey acknowledge that LJM was to receive a cash fee for its management of the Raptor vehicles in an amount not to exceed \$250,000.00 annually for each company, for a total of \$1,000,000.00 for the four entities. AA was aware of Enron's payment of these fees as well as other organizational costs of the Raptor entities, but these fees fall far short of recouping LJM's investment in the Raptor entities. Both Mr. Fastow and Mr. Causey were quick to point out, however, that in each Raptor vehicle the first transaction was a "put" of Enron shares which was settled favorably to LJM prior to maturity, and as a result thereof, distributions were made to LJM in amounts equal to or greater than its initial investment in those Raptor vehicles. AA is aware of these transactions and is comfortable that, by reason of the applicable special purpose entity accounting rules, the transactions do not undermine LJM's equity investment in the Raptor vehicles.

When questioned about her basis for these two allegations in her anonymous letter and supplemental materials, Ms. Watkins acknowledged that she had no personal, first hand knowledge of either allegation. Both were based solely on rumors that she heard during the two months she was working in Enron Global Finance, and she was uncertain about any details of the alleged cash fee

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allegation. Notwithstanding the lack of any solid basis for the allegations, we think it is likely that AA will seek some kind of assurance from Enron and perhaps from Messrs. Fastow and Causey that no such agreement or cash fee payment occurred.

6. Adequacy of Disclosures

Notwithstanding the expression of concern in Ms. Watkins' anonymous letter and supporting materials regarding the adequacy of Enron's disclosures as to the Condor/Whitewing and Raptor vehicles (which, to a large extent, reflect her opinion), AA is comfortable with the disclosure in the footnotes to the financials describing the Condor/Whitewing and Raptor structures and other relationships and transactions with LJM. AA points out that the transactions involving Condor/Whitewing are disclosed in aggregate terms in the unconsolidated equity affiliates footnote and that the transactions with LJM, including the Raptor transactions, are disclosed in aggregate terms in the related party transactions footnote to the financials.

The concern with adequacy of disclosures is that one can always argue in hindsight that disclosures contained in proxy solicitations, management's discussion and analysis and financial footnotes could be more detailed. In this regard, it is our understanding that Enron's practice is to provide its financial statements and disclosure materials to V&E with a relatively short time frame within which to respond with comments.

7. Potential Bad Cosmetics

Concern was frequently expressed that the transactions involving Condor/Whitewing and Raptor could be portrayed very poorly if subjected to a Wall Street Journal exposé or class action lawsuit. Factors pointed to in support of these concerns included (i) the use of Enron stock to provide equity necessary to do transactions with Condor/Whitewing and Raptor; (ii) recognizing earnings through derivative transactions with Raptor when it could be argued that there was no true "third party" involved in those transactions; (iii) because both merchant investment value and Enron stock have fallen, the Raptor entities may not be able to satisfy their obligations to Enron, thus raising the question "Who ultimately bears this loss?"; (iv) the apparent conflict of interest issue raises questions as to the valuation of assets sold to or that were the subject of transactions with Raptor and the timing of those transactions, (generally at a point when the valuation was at a historical high point).

8. Conclusions

Based on the findings and conclusions set forth with respect to each of the four areas of primary concern discussed above, the facts disclosed through our preliminary investigation do not, in our judgment, warrant a further widespread investigation by independent counsel and auditors.

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Our preliminary investigation, however, leaves us with concern that, because of the bad cosmetics involving the LJM entities and Raptor transactions, coupled with the poor performance of the merchant investment assets placed in those vehicles and the decline in the value of Enron stock, there is a serious risk of adverse publicity and litigation. It also appears that because of the inquiries and issues raised by Ms. Watkins, AA will want additional assurances that Enron had no agreement with LJM that LJM would not lose money on transactions with Enron and that Enron paid no fees to LJM in excess of those previously disclosed to AA. Finally, we believe that some response should be provided to Ms. Watkins to assure her that her concerns were thoroughly reviewed, analyzed, and although found not to raise new or undisclosed information, were given serious consideration.

We have previously reported verbally to Mr. Lay and you regarding our investigation and conclusions and, at your request, have reported the same information to Robert K. Jaedicke, in his capacity of Chairman of the Audit Committee of Enron's Board of Directors. At Dr. Jaedicke's request, we gave a verbal summary of our review and conclusions to the full Audit Committee. Should you desire to discuss any aspect of this written report or any other details regarding our review of this matter, please do not hesitate to contact us at your convenience.

Very truly yours,

VINSON & ELKINS L.L.P.

By: Max Hendrick III
Max Hendrick, III

c: Joseph C. Dilg
JCD: 10/15/01

CONFIDENTIAL**DRAFT: October 23, 2001 (2:45PM)**Privileged and Confidential:
Attorney-Client Privilege
Attorney Work Product**MEMORANDUM**

TO: Enron general file (re: Accounting Issues)

FROM: Max Hendrick, III

DATE: October 22, 2001

RE: Telephone Interview with Jeffrey McMahon on October 18, 2001

On October 18, 2001, Joe Dilg and the author interviewed Jeffrey McMahon ("McMahon") by telephone. McMahon had previously been interviewed in connection with the investigation into the allegations contained in an anonymous letter and supplemental materials authored by Sherron Watkins. The supplemental interview was occasioned because of information relayed by Steve Kean ("Kean") to the effect that McMahon had made several statements regarding the LJM transactions that seemed inconsistent with statements he had previously made in his interview. The focus of the supplemental telephone interview was to clarify those points on which there was potential inconsistency.

Leaving the Office of Treasurer under Duress

McMahon initially stated that his comments to Kean were made immediately after learning Enron had been sued in a derivative lawsuit regarding the LJM transactions. He wanted Kean to know that there were certain areas of concern that would, no doubt, come under scrutiny as a result of the lawsuit or further legal or SEC inquiry.

By way of history, McMahon stated that he had approached Andy Fastow ("Fastow") many times about how the LJM issue was being treated. Fastow was wearing two hats but still in charge of and superior to people negotiating for Enron. Employees subordinate to Fastow were charged with responsibility for working on LJM matters; Enron and LJM were operating out of the same space. Reference to Fastow's ownership in LJM was used as a subtle stick in negotiations against Enron. All of these factors (previously discussed in the initial interview) contributed to McMahon's view that there was a conflict of interest.

Fastow never addressed these problems, whereupon McMahon felt compelled to discuss the issues with Jeffrey Skilling ("Skilling"), Enron's then President and Chief Operations Officer. McMahon advised Skilling that there were major conflicts of interest, but that those conflicts could be resolved. The people involved in the LJM conflicts were not responding well, and it was a

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stressful situation. McMahon did not present an ultimatum to Skilling (he volunteered that presenting ultimatums was not the way one could deal successfully with Skilling). He simply presented the fact that he could not compromise his position in light of the existing conflict of interest. Either some changes had to be made to resolve the conflict of interest or Skilling needed to find McMahon a new position. Several weeks later Skilling encouraged McMahon to take the job with Enron Networks, but Skilling did not link this to the conflict of interest with LJM.

McMahon believes that there are lots of people who know about his position and complaints about the conflict of interest. There may be a general perception that McMahon was "forced out" of the Treasurer's position as a result of this, and McMahon thought that Kean should be aware of this potential problem.

Pressure on Enron's Bankers to Invest in LJM

McMahon believes that a lot of the adverse publicity may be coming from bankers who believe they were pressured to invest in LJM. Several bankers came to McMahon and inquired whether an investment in LJM gets them an inside position for Enron business. McMahon consistently responded, "Not as far as I'm concerned." At later points in time, at least two bankers came to McMahon and said that they were promised business in turn for their investment in LJM.

McMahon recounted that First Union Bank's Paul Riddle called and complained about not getting a bond deal. He stated that he was promised the next bond deal for investing in LJM. McMahon's response was to the effect, "Not by me, you're talking to the wrong guy."

Merrill Lynch (no name given) commented, not by way of sour grapes, but simply as fact that it was felt linkage existed between investment in LJM and Enron business.

Deutsche Bank did not invest in LJM, but thought there was a linkage and felt it was improper.

Chase Bank felt there was a linkage between an investment in LJM and Enron business.

McMahon made clear that he had no first-hand knowledge – he was not present when any pressure was put on a bank to invest in LJM. He is concerned, however, how other Enron officers may have to testify on this subject. McMahon identified the following Enron employees as having had discussions with banks and who can comment more directly on the possibility of pressure being put on them to invest in LJM: Ben Glisan, Tim Despain, _____ Brown, Ray Bowen and Kelly Boots.

After he left the Treasurer position, McMahon never saw anything fishy about the way bank business was given out, but he was totally out of the loop. While he was Treasurer, he never saw anything about giving business to banks that he thought was improper or he would have "pulled the red chain."

CONFIDENTIALBuy-out of Michael Koppers' Equity in JEDI-1

McMahon recounted that when Calpers was bought out as an equity owner in JEDI-1, Michael Koppers ("Koppers"), an Enron employee who worked for Fastow, was used as a replacement equity owner. The JEDI-1 structure was administrative burdensome and McMahon thought the equity (then owned by Koppers) should be bought out. He understood that Koppers had invested approximately \$100,000 a year before. He discussed the possible buy-out with Fastow and felt Koppers could easily be bought out at a modest profit. Fastow said that he would handle the negotiations with Koppers.

There was actually a formula built into the JEDI investment whereby Enron could effect the buy-out. Going by the formula, Koppers would be entitled to approximately \$22 million. McMahon felt like Koppers should not even get \$1 million. As McMahon understands it, Koppers was to get \$10-12 million as a result of the final negotiations. McMahon's discussions with Fastow on this subject were in January-February of 2000, shortly before he left as Treasurer. He thinks the deal did not close until early 2001.

McMahon's concern about this buy-out of Koppers in JEDI-1 was based on rumors that Koppers used the money from JEDI-1 to buy out Fastow's position in LJM. Many people assume that this was the case, but McMahon again has no personal knowledge. He thinks the same financial executives named above plus Kevin Howard would either have knowledge or a view of this situation.

Pressure on Enron Representatives Negotiating with LJM

McMahon believes that the lawsuits and related inquiries are going to look for all leakage out of Enron to LJM. People who negotiated for Enron against LJM will probably testify that they felt pressure. One example, which he gave in his prior interview, was Doug McDonald negotiating on behalf of Enron against Koppers. McMahon was at home, received a call from Fastow, who complained about McDonald negotiating too hard. As it turned out, Fastow had the facts wrong and ultimately backed off.

McMahon has no personal knowledge of deals that were against Enron's interest or well-being, but he is concerned about this subject. He gave the following names of individuals and situations that indicate that they may be the source of information unfavorable to Enron's position in this regard:

Kevin Howard – a good person to talk to about pressure exerted on Enron professionals negotiating against LJM;
Ray Bowen – another guy who got chewed out for negative comments about the LJM situation;
Cliff Baxter – frequently in Skilling's office complaining about LJM and Fastow's conflict of interest;

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Ken Rice - same story;

Paul Chivens - an ex-Enron London guy now with Credit Agricole in Paris; and

Mike Jakgbi - hired by McMahon to set up a private equity fund. McMahon wanted a friendly source of capital to do deals. By the time Jakgbi arrived for work, Fastow had set up LJM, which was exactly the same concept. Jakgbi felt that Fastow stole his concept. He is now the relationship person for Enron with Deutsche Bank.

As a final note, McMahon stated that the Bloomberg release has lots of information concerning the derivative lawsuit filed against Enron.

MHIII

c: Joseph C. Dilg

Houston#690086.1

CONFIDENTIALPrivileged and Confidential:
Attorney-Client Privilege
Attorney Work Product**MEMORANDUM**

TO: Enron Corp. File

FROM: Max Hendrick, III

DATE: September 7, 2001

RE: Interview with Jeffrey McMahon, August 30, 2001

On Thursday, August 30, 2001, Joe Dilg and the author interviewed Jeffrey McMahon ("McMahon"), President and Chief Executive Officer of Enron Industrial Markets ("EIM"), to obtain information relevant to an employee's inquiry regarding the propriety of the Raptor and Condor/Whitewing structures.

McMahon was in Enron's London office as Chief Financial Officer of Enron Europe until mid-1998. From mid-1998 until March 2000, McMahon was Treasurer of Enron Corp., reporting to Andy Fastow ("Fastow"), Enron's Chief Financial Officer. In March 2000, McMahon moved to a business position with Enron Networks which later evolved into EIM.

When McMahon came on as Treasurer in mid-1998, the NightHawk structure, a predecessor to Condor/Whitewing was already in place. Condor/Whitewing was set up after he came, as a structured finance project and was managed by Michael Kopper ("Kopper"), who reported directly to Fastow. Although McMahon had no direct responsibility for or involvement in Condor/Whitewing, he understood it was set up as a temporary holding facility for assets Enron wanted to sell. Condor/Whitewing was capitalized, bought assets that Enron wanted to sell; then Condor/Whitewing would sell off the assets either individually or in packages as time and circumstances allowed.

Both LJM1 and LJM2 were set up during McMahon's tenure as Treasurer, but he was not familiar with the exact structure. He knew that Fastow would be the general partner of the entity. Although he tried to find out who the investors were, and felt he should know about them because his job was dealing with banks with whom Enron transacts business, he was never told who the investors were. LJM was likewise handled as a special project by Kopper. The Raptor vehicles came along after McMahon left as Treasurer, although he understood that Raptor was a vehicle established so that Enron could protect the value of certain of its merchant assets.

McMahon does not recall reasons being given for the secrecy or confidentiality of LJM, although it was perhaps because he never asked. The widely held perception was that LJM presented

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an inherent conflict. McMahon was vocal with Fastow and Skilling on this point. His issue was not with the fairness or valuation of transactions that were placed in LJM but rather the potential conflict of interest.

McMahon explained that the conflict arose because employees under his supervision negotiated on Enron's behalf with other Enron employees representing LJM on the value of assets to be sold. Enron employees he supervised were instructed to get the best deal for Enron; he assumes that those acting for LJM were similarly instructed to get the best deal for LJM. The perception to employees he supervised was that when Fastow got involved, the guys negotiating for Enron might shrink from their expected vigorous negotiations. Fastow, after all, had the final say on their evaluations for salary and bonus purposes.

McMahon and Fastow went round and round on this issue. McMahon thought there was a conflict and thought it needed to be fixed. He proposed several options that would avoid or lessen the conflict:

- (1) Fastow could resign from LJM (McMahon did not view this as a realistic alternative because he did not think Fastow would voluntarily resign);
- (2) Fastow could remove himself from the evaluation process for salaries and bonuses of those Enron employees other than McMahon representing Enron in negotiations with LJM (i.e., let McMahon deal with the conflict);
- (3) Enron and LJM could be separated by (a) eliminating dual employees and (b) establishing separate office space for LJM.

Fastow never acted to implement any of these options (to which McMahon attributes no bad motive or intent), so he discussed the conflict with Jeffrey Skilling ("Skilling") to the effect that the conflict needs to be fixed or McMahon should be moved. This discussion took place in the February-March 2000 time frame and Skilling said that he would look into it.

Coincidentally, McMahon was being recruited by Greg Whalley to join Enron Networks in a business position. While in the process of making his decision on this possible move, Skilling encouraged him to take the new job, emphasizing that it was Enron's core business and his talents were needed. McMahon did so and commented that it was the best move he ever made. Enron Networks ultimately developed into EIM.

McMahon is confident that the conflict issue, as he viewed it, was brought to the attention of Skilling because he discussed it with him personally. He doubts that Ken Lay was aware of this specific conflict that was his concern.

Although McMahon said he was unaware of Fastow intervening directly in the negotiations between Enron and LJM, he cited one situation in which Doug McDowell ("McDowell") was

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negotiating from Enron's standpoint with Kopper on a deal near year-end 1999. Fastow called McMahon at home and complained that McDowell was negotiating too hard and that they should get the deal done. As it turned out, there was a communications problem and Fastow did not have the right information about the deal terms. The deal was later consummated in favor of the points being argued by McDowell. McMahon has no examples of a deal having been struck that was unfair to Enron. His concern was that the Enron guys may not be negotiating the same way they would have with a truly independent third party.

McMahon stated that the approval procedure was put in place after he left as Treasurer. He believes that this was started as a result of one of his complaints. He was aware that Rick Buy, Risk Management Manager, and Rick Causey, Chief Accounting Officer, are part of the approval process. He noted that Rick Buy would be an interesting person to talk to, because he believes that the approval procedure shifted the conflicts issue from the Treasurer to Buy.

McMahon emphasized he had no problem with Fastow's motive or intent in the LJM vehicle. His issue was the inherent conflict in appearance only. The impact of this conflict was on the junior people negotiating for Enron under those circumstances.

McMahon commented that a lot of transactions that were done with LJM were highly beneficial to Enron. Without this form of friendly equity vehicle, a lot of these deals would not have gotten done.

Since becoming CEO of EIM, McMahon has had no dealings with LJM or the Raptor vehicles. Those vehicles were used to monetize assets or protect the value of assets and EIM has no assets that require those services.

McMahon also pointed out that the anonymous letter addressed accounting issues, and that accounting issues have never been the subject of his concern. He was not involved with and is not competent in those areas of accounting issues and is further confident that Causey and Arthur Andersen & Co. make sure that things are done properly.

McMahon viewed the individual who wrote the anonymous letter to have a concern about how the structure/transactions with LJM would stand up to public scrutiny. He personally thinks not very well, although he is confident that everything was done in a technically correct way.

If the conflict issues were cured, McMahon believes it was good to have a friendly equity investor available. Fastow simply did not need to be the general partner.

As Treasurer, McMahon received inquiries from bankers about whether continued banking relationships with Enron were dependent on investing in LJM. McMahon believes that Fastow solicited the ten or so key banks with which Enron did business to be investors in LJM, and McMahon heard from at least half of them. This possibly presented another area of conflict. Fastow had the final say on bank selections; some he picked alone on special projects, but most requests

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would be originated by the Treasurer. McMahon consistently informed the banks that there was no linkage between Enron banking business and investments in LJM.

McMahon agrees that the anonymous letter raises no new information. As he walks through the letter, he cannot believe that the accounting is not absolutely perfect. It has been carefully reviewed.

During the course of the interview, McMahon indicated that the person who wrote the anonymous letter came to visit him directly, so he is aware of the person's identity. He believes some information she provided may have overstated or misstated the nature of his concerns, as his concerns were not related to accounting issues.

c: Joseph C. Dilg
Houston 644816.1

VEL 00015

CONFIDENTIALPrivileged and Confidential:
Attorney-Client Privilege
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TO: Enron Corp. File

FROM: Max Hendrick, III

DATE: September 18, 2001

RE: Interview with Sherron Watkins, September 10, 2001

On Monday, September 10, 2001, Joe Dilg and the author interviewed Sherron Watkins ("Watkins") to obtain information relevant to the inquiries contained in her anonymous letter to Ken Lay regarding the propriety of the Condor/Whitewing and Raptor structures. The interview was somewhat disjointed because it was felt better to let Watkins discuss issues she wanted to address initially before questioning in any particular areas. As a result, the following memorandum, which attempts to track the general flow of discussion, is repetitious in certain areas.

By way of her personal employment background, Watkins advised that she spent eight years with Arthur Andersen L.L.P. ("AA"), five in the audit department in Houston (auditing primarily energy clients) and three in the New York office in litigation support. She then spent three years with MG Trade Finance in New York City before returning to Houston and joining Enron Corp. ("Enron") in October, 1993. She took a job working for Andy Fastow ("Fastow") (apparently in the corporate finance area) and was a manager for the JEDI, Cactus and related projects. During the three year period in that position, she reported variously to Fastow and/or Rick Causey. Over the next 3-4 years, Watkins apparently had several different positions with Enron's materials and metals operations and Enron International. She joined Enron Broadband in early 2000 but left in the spring of 2001 as a result of the downsize movement. In the spring of 2001, she was considering positions in corporate relations or again working for Fastow. She took the position working for Fastow, and in June, 2001, commenced a project of listing and gathering information on assets Enron may want to consider selling off. Watkins current business card indicates she is Vice President, Corporate Development.

Watkins stated that her concern about the Condor and Raptor vehicles arose during the process of her listing of various assets that Enron may want to consider selling. She noted the following particular assets sold to Raptor on which a theoretical gain or revenues were reflected: NewPower Co., AVICI, and Hanover. She notes that these assets are all hedged in an investment vehicle in which LJM is an equity participant, but LJM has pulled out approximately \$39 million, constituting more than its equity contribution. The Raptor entities owe Enron approximately \$700

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million, but those entities have no ability to pay Enron back and LJM has no obligation to put up additional equity.

Watkins understands that, because of value appreciation in Enron stock held in another entity, it was used to support these Raptor investments with LJM. She noted a progressive aggressiveness in Enron's accounting practices, beginning in 1996 when Enron began its mark to market evaluation. At first these were less aggressive, but by 1998-1999, Enron began pushing the edge.

Watkins' concern is that the Raptor transactions look bad. Each of the aforementioned three investments were pegged at their peak. No truly independent third party would have bought these assets at their then market value. Although Raptor provided a vehicle for Enron to hedge against declines in those values, Raptor couldn't hedge. Watkins' point is that in the Raptor transactions you can't find an equity or debt investor who will ultimately have to pay Enron back. Watkins commented that the initial bad appearance got even worse. Both the Enron stock values and the asset value of the assets in Raptor went down. In the first quarter of 2001, the Raptor vehicles had to be enhanced to avoid a write-down. In looking at the overall value of the credit, the Raptor vehicles simply had to be enhanced.

Watkins likewise commented on the inherent conflict of interest of Fastow being the managing partner of LJM. In fact, Jeff McMahon ("McMahon") told Jeff Skilling ("Skilling") of five options that were needed to fix the conflict in order for McMahon to stay on as Treasurer of Enron. Three days later, without addressing the five points, Skilling offered McMahon a position in Enron Networks, a new start-up business. She thinks it is highly unusual for a person to go from Treasurer to the business head of a start-up business. She viewed this as coercion and intimidation.

Watkins stated that she was upset by the situation she found in the Condor and Raptor structures. She decided to leave the company and thought she would tell Skilling all that she had found wrong on her last day of work. But Skilling announced his resignation and departed immediately. Accordingly, she put her concerns in the anonymous letter in advance of the Enron employee meeting to express her concerns to Ken Lay.

Another aspect of the inherent conflict in interest, according to Watkins, was Fastow in effect blackmailing banks to become investors in LJM. She stated that she had friends/acquaintances who worked for Chase, Bank of America and CreditSuisse First Boston who had told her as much during cocktail conversations.

Watkins stated that she had studied the Waste Management accounting problems. Waste Management had depreciated a landfill on a more aggressive schedule than was permitted by the SEC. In that context – which did not seem so bad to her – Waste Management executives and board of directors were removed; they were required to return bonuses and the company had to pay tremendous fines. She viewed Enron's actions as being much more horrific.

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Watkins pointed out that Rick Buy's group, which was responsible for assuring the Raptor entities were creditworthy, put together various information which was shared with her. Rick Buy and his group did not get involved in accounting issues and from their standpoint, all they could do was push on the creditworthiness issue. She views some of the materials out of Rick Buy's group to be "smoking guns" if ever they fell into the hands of the wrong parties.

Watkins also identified Enron's activities in Entertainment on Demand, a FAS125 transaction, a total return swap with a bank, as a transaction that will come back to haunt Enron.

On several occasions Watkins mentioned that she felt Enron had no choice but to restate its financial statements and take its lumps. Skilling's departure has brought additional attention to Enron and its accounting practices, and she feels that the Condor and Raptor transactions will become public knowledge. Watkins has no information, however, that there was any causal relationship between these vehicles and Skilling's departure.

Watkins feels that efforts to enhance the Raptor vehicles again on Ken Lay's watch would come back to haunt him. She is concerned about this because of her understanding of a \$250 million fix that will need to be made during the third quarter of 2001. Potential publicity may come from 100-200 employees who have been "redeployed" from Enron. She believes there is a risk of these employees providing information to journalists, analysts and authorities.

To reiterate her point that the Raptor transaction does not look good, she expressed concern about what a good plaintiff's lawyer could do with the facts of locking in of asset values at their highest point, expert witness testimony that this value is unrealistic and no one would pay that much, a loss of \$700 million which no one has to pay and which Enron shareholders will have to absorb through dilution of their shares. Watkins stated that if the Raptor transactions are not arms length transactions, they have to be accounted for differently. She also points out that on a disclosure issue, Wall Street Journal articles and others are already writing stories about Enron's unclear financials.

Watkins admitted that she had not seen the legal documents on the Raptor transaction. She does not know how the deals were negotiated as to value for the AVIC, Hanover and NewPower assets. Her point, nevertheless, is that in hindsight, it looks bad.

On several occasions, Watkins pointed out possible sources of corroboration for her concern about Enron's accounting practices. She referenced an employee survey that was done in advance of the senior management retreat held September 6-7, 2001, which was summarized for Ken Lay's benefit and use by Cindy Olsen. Watkins heard two Enron employees - Jeff Donaghey, a managing director on the cultural committee, and Tim DeMiring, also a managing director - state, in effect, that questions regarding accounting issues were not reflected in that summary. Watkins did not know how many people commented on accounting issues, but felt that a legal assistant could plow through the surveys and make a determination. Watkins also identified people in Rick Buy's group as being sufficiently removed and knowledgeable about the accounting problems. These included Vince Kaminski, Rudi Zipter and Ding Yuan.

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Insofar as the references in her anonymous letter to the unwinding in 2002-2003, Watkins stated her understanding that Condor has debt coming due in 2003, or otherwise has a time period by which Enron has to do something about that vehicle. Insofar as Raptor, she understands that the derivative contracts must be settled in 2002. At that point, something will have to be done to Enron's accounting.

When asked if she had specific instances in the Condor vehicles that the accounting was handled contrary to accounting rules or literature, Watkins' response was simply that the transaction would not play well in court. Although the asset was purportedly sold by Enron to Condor, Enron's business units are still managing the asset. Enron booked cash flow on the sale of the asset but is still running it. She acknowledged, however, that Condor was a cash flow and off-balance sheet tool, and not an earnings management tool.

Watkins points out that the mere fact that Fastow has sold his interest in LJM may help cure the inherent conflict of interest, but it does not cure the problem of dealing with a "friend of Enron." Dealing with any friend of Enron raises two issues:

- No one will do transactions of this kind unless they know that payment will be made by Enron stock or they will otherwise be made whole;
- The issue is not just valuation at the time; the ongoing value of assets placed in Raptor is an important factor.

Watkins' understanding of the first quarter of 2001 enhancement of Raptor with Enron stock was that it was done so Raptor's credit would not be restricted. Something had to be done to avoid credit write-downs. She thinks this looks bad from a possible "coverup" exposé, but she is not sure how the enhancement was accomplished. She thinks it is one thing to have the Raptor transactions in the first place, but worse to enhance Raptor with Enron stock after the Raptor asset value declines. In the third quarter she understands \$250 million credit deficiency will exist in Raptor. She thinks there will be another effort to enhance Raptor but that Ken Lay will be making a mistake to do it.

The comments in Watkins' letter about executives selling Enron stock at high prices is not related to her concerns about the Condor and Raptor structures. It is just another bad circumstance that will not play well in court. She does not have any facts linking these stock sales to the Condor/Raptor transactions.

Watkins does not necessarily know how LJM got its money out of the Raptor transactions. In her letter, she referred to a cash fee but all she knows is that LJM has received distributions that more than repaid its initial investment in the Raptor transactions.

The \$250 million third quarter problem is known to her through casual conversations. She has had a number of conversations with representatives of Enron Global Markets who have innocently told her the information about Raptor and the \$250 million problem.

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Watkins believes that AA has not been kept from information relating to the Condor/Raptor transactions. She thinks that AA has let the transactions go too far and that AA is as "guilty" as Enron. She also points out that Enron is AA's largest customer world wide.

Watkins thinks that taking assets placed in Raptor at the highest market value was merely a coincidence; she has no indication that there was any backdating to achieve high market value for these assets.

Watkins explained the evolution of the various papers she had made available to Ken Lay. She initially wrote the anonymous letter. She then advised Cindy Olsen that she was the letter writer and wished to speak to Ken Lay. She was provided a copy of Rick Causey's e-mail addressing one of her concerns. She thinks that it is far too simplistic to respond that the contingent shares are included in the calculation of fully diluted earnings per share. She then wrote additional explanations of her points, and finally made an outline of topics she wished to discuss with Ken Lay. The last item was prepared after her discussion with McMahon, who suggested she needed to be organized and use her 30 minutes with Ken Lay wisely if the objective was get Jim Derrick to look at the issue closer.

Questions about Enron's accounting practices are not limited to Condor and Raptor. Watkins knows that Jeff Donaghey thinks that the sale of the MTE plant to EOTT on a mark to market basis is questionable. He did not like the mark to market treatment.

Watkins stated she was trying to give Ken Lay the impression that she was not a voice in the wilderness and that other employees were very concerned about this issue. She believes that a review of the employee survey would support her position in this regard.

Watkins suggested that Cliff Baxter and Jeff Donaghey would be good additional people to talk to regarding her criticism of accounting practices in the Condor/Raptor vehicles.

Insofar as determining how valuation was determined in the Raptor transactions, Watkins identified Vince Kaminski as a good person to talk to. She does not know exactly how the valuation matters were negotiated.

Watkins pointed out that it would also be useful to look at what happens in 2002 and 2003. Enron can't write off its Raptor investment because it would admit that it was not dealing with a real entity in arm's length transactions. She thinks Enron has to restate its financials and take its lumps.

c: Joseph C. Dilg
Houston 652950.1

VEL 00036

CONFIDENTIALPrivileged and Confidential:
Attorney-Client Privilege
Attorney Work Product**MEMORANDUM**

TO: Enron Corp. File

FROM: Max Hendrick, III

DATE: August 30, 2001

RE: Interview with Jordan H. Mintz, August 24, 2001

On Friday, August 24, 2001, Joe Dilg and the author interviewed Jordan H. Mintz ("Mintz"), Vice President and General Counsel of Enron Global Finance ("EGF") to obtain background information regarding the Raptor transactions and, more particularly, the entity known as "LJM." Mintz has been General Counsel of EGF for approximately one year. In that capacity, his boss is Andy Fastow ("Fastow"), Chairman of EGF and Chief Financial Officer of Enron Corp. ("Enron"). Mintz initially indicated that when he became General Counsel of EGF, he was concerned about LJM, not because of any impropriety, but because of the ugly cosmetics. LJM created morale problems among senior management within EGF because there was uncertainty as to the fairness of the compensation of those participating in LJM.

According to Mintz, the impetus for LJM was created by Enron's acquisition of Portland General Electric ("PGE"). Because that acquisition would make Enron a utility, Enron was forced to divest itself of several "Qualifying Facilities" under certain federal regulatory statutes. The idea was to find a "friend of Enron" which would get a return on its investment, which would look to Enron to make it whole, and which would be easy for Enron to work with in the event Enron wanted to reacquire the assets. The structure requires sufficient third party equity so that it will not be an Enron affiliate for financial accounting purposes. Arthur Andersen & Co. ("AA")'s view was that 3% of the equity must come from the non-affiliated party. Enron also conferred with AA on the issue of booking assets on a mark to market basis. According to Mintz, Enron was looking for a structure in which to place mark to market assets and assure that any loss on those assets would be deferred until their disposition.

According to Mintz, Fastow created a private investment company in which he acted as manager of the general partner and various banks participated as limited partners. These banks were the same as those who ordinarily did business with Enron. Fastow (or perhaps more properly LJM) would earn a management fee based on the total funds raised. For instance, if the funds raised amounted to \$200 million, LJM would earn 1% in fees regardless of any activities. Under the structure, the limited partners would get the return of their investment and a 30% return on their investment. Within the initial LJM fund (which Mintz referred to as "LJM1," the full name of which is LJM Cayman, L.P.), there were two deals. One was RhythmsNet and another was an interest in Cuiba, a pipeline project in Argentina (Brazil?).

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There was later formed an LJM2 (LJM2 Co-Investment L.P.), which Mintz described as a larger fund with limited partners possibly including Credit Suisse First Boston and CitiBanc. Mintz indicated that the creation of these funds involved private placement memoranda and disclosure information, and he agreed to collect and provide a package of materials that would include these items reflecting information provided to the limited partners of LJM.

According to Mintz, after the formation of LJM2, the entity took on a life of its own. From Enron's standpoint, the transactions with LJM were funded with Enron shares of common stock that had built up considerable market value. (Later in the interview, Mintz indicated that these shares primarily came available with the dismantling of JEDI into which Enron had previously contributed shares of its common stock. At least some of this stock, once it became available from the termination of the JEDI vehicle, was used to fund transactions with LJM.) According to Mintz, there was lots of history of the Enron-LJM relationship reflected by Enron board of director resolutions and presentations. Deal sheets were also developed that reflected negotiations and approvals at various stages by appropriate Enron and LJM representatives.

At one point, Mintz indicated that the LJM vehicle accomplished several things:

- (1) generate funds with which to purchase assets from Enron;
- (2) generate revenues to Enron;
- (3) move Enron assets off balance sheet; and
- (4) hedge assets (also characterized as a subset of (1) above).

LJM was a third party with whom Enron could close deals quickly and could work easily. Mintz believes that Jeff Skilling liked the vehicle for that reason and was glad to have it around without regard of the personal profit to LJM and Fastow. To the extent this structure was criticized because Enron shares of common stock were used as currency, those shares were always used in calculating Enron's earnings per share on a fully diluted basis (that is, Enron shares committed to transactions with LJM were included in the denominator in the calculation of Enron's earnings per share).

Mintz observed the awkwardness and disfunctionality that was brought about by the LJM structure. Some employees of EGF also had roles with LJM. LJM was operated out of Enron's office space, although it was separate space in a separate building. Employees working for LJM received their salaries from Enron, but their bonuses were paid by LJM. Enron analysts and associates were routinely rotated through LJM. Certain Enron employees were likewise profiting from LJM. For instance, on the RhythmsNet deal, Fastow implied that his personal profit was in the \$10-15 million range. At some point, according to Mintz, Fastow carved out a piece of his interest in LJM and conveyed it to Michael Koppers, also an Enron employee. Finally, effective July 31, 2001, Koppers left Enron and Fastow either sold all of his interest in LJM to Koppers. There were only two transactions between Enron and LJM in the first half of July, 2001, and the sale of Fastow's interest to Koppers was structured so that Fastow would realize no income from LJM transactions with Enron during 2001. Under the sale transaction as currently structured, LJM will lease office space from Enron in Three Allen Center, but Koppers will retain an office in Enron's premises through September, 2001.

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According to Mintz, the relationship between Enron and LJM was reviewed by both the audit committee and finance committee of Enron's board of directors. The review is done on a transaction by transaction basis and there was a discussion of (1) the deal, (2) the purposes, and (3) the benefits to Enron. Mintz does not believe this review process delved into the profits received by Fastow (or any other Enron employee) from LJM.

The deals between Enron and LJM, at the time they were entered into, were likewise signed off by appropriate business personnel, including representatives from legal (Mintz himself), Risk Management (Rick Buy), Enron Accounting (Rick Causey), among others. Although Mintz attempted to secure Skilling's signature to sign off on these deals, he was not able to accomplish this.

According to Mintz, AA would also review deals to assure appropriate accounting treatment. Primarily, AA was looking at the LJM side to make sure the deals had sufficient third party equity in the party. Mintz indicated that the deals were negotiated and reviewed from the LJM side as well, which used Kirkland & Ellis as its counsel and Coopers/Price Waterhouse as its accountants.

Mintz indicated that a third fund, LJM3, was in the works earlier this year, but the project did not go forward. Although Mintz did not so state, the scrapping of LJM3 was apparently done about the time it was determined that Fastow should divest himself of all ownership interest in LJM entities.

Possible Follow Up Activities

During the course of the interview described above, Mintz indicated he would provide a package of information relating to LJM which will include, at a minimum, private placement memorandum issued by LJM to its investing limited partners. If the package does not contain additional information, possible consideration should be given to requesting the following items for further background review:

- (1) Resolutions and minutes of the board of directors of Enron Corp., and the audit committee and finance committee thereof, with respect to transactions between Enron and LJM (this has been provided);
- (2) All written presentations to the Enron board of directors, audit committee or finance committee regarding LJM or transactions between Enron and LJM (this has been provided in part, but should be confirmed for completeness); and
- (3) All "deal sheets" showing the nature and approval of transactions between Enron and LJM (this has not been provided).

c: Joseph C. Dilg
Houston 639160.1

CONFIDENTIALPrivileged and Confidential:
Attorney-Client Privilege
Attorney Work Product**MEMORANDUM**

TO: Enron Corp. File

FROM: Max Hendrick, III

DATE: August 30, 2001

RE: Interview with Andrew S. Fastow, August 27, 2001

On Monday, August 27, 2001, Joe Dilg and the author interviewed Andy Fastow ("Fastow"), Chief Financial Officer of Enron Corp. ("Enron") and Chairman of Enron Global Finance ("EGF") to obtain information relevant to an employee's inquiry regarding the propriety of the Raptor and Condor/Whitewing structures.

Fastow expressed some irritation with the implication of the employee's letter referring to the Condor/Whitewing and Raptor structures, because all transactions were reviewed with the Office of the Chairman. This is also true of NightHawk, a predecessor to Condor/Whitewing. These were all stock deals (*i.e.*, Enron stock was issued to support the transactions) which required approval of the full board of directors. The full board of directors also approved any restructuring of these transactions. In addition, Arthur Andersen & Co. ("AA") reviewed every transaction under the auspices of Rick Causey, Enron's Chief Accounting Officer. Standard procedure was to review each transaction from a technical basis, and AA's technical specialists (specialists in accounting rules) were involved in this process. AA likewise reviewed legal documents utilized in each transaction and commented to counsel. Vinson & Elkins ("V&E") also reviewed documents and made comments. Moreover, the transactions were disclosed. V&E and AA worked diligently on the necessary disclosure reports.

Fastow noted that the Condor/Whitewing and Raptor structures were similar in that they were supported by the issuance of Enron stock, but that Raptor was different in that in each of the four Raptor transactions, LJM provided the equity for the deal. Fastow recused himself from the Enron part of the equation and represented LJM in those transactions.

The board of directors' approval was of the initial structure of the vehicles (Condor/Whitewing and Raptor). The audit committee of the board of directors performed an annual review of all LJM transactions, including the Raptor transactions.

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Fastow interpreted the employee's letter to have two primary implications:

- (1) AA made a mistake when they determined that Enron could book earnings from Raptor; and
- (2) There was not full disclosure of the issuance of Enron stock to support these transactions.

In Fastow's view, the employee is simply "second guessing" AA's determination as to the first implication and is factually wrong on the disclosure issue. Fastow believes that Enron's issuance of shares to support these transactions has been fully disclosed in its public filings.

Fastow pointed out the primary difference between the Condor/Whitewing structure and the Raptor vehicles is that no earnings are booked by Enron from the Condor/Whitewing vehicles. These vehicles were intended to accomplish two things:

- (1) Move assets and related debt off Enron's balance sheet; and
- (2) Record funds flow when assets are sold by Enron to Whitewing.

Because Whitewing is an affiliate of Enron, Enron cannot book earnings from it. LJM is not an affiliate of Enron; therefore, Enron can book earnings from the vehicles in which LJM provides the equity.

Fastow speculates that the employee who wrote the letter would argue something as follows:

- contingent Enron stock associated with Whitewing vehicle was pledged to the Raptor entities
- Enron entered into derivative transactions with Raptor running in Enron's favor
- because of the decline in value of the assets placed in the Raptor entities, Enron will have to issue more stock to support these transactions, which would ultimately be dilutive of the earnings per share of Enron stock.

In response, Fastow would argue that Enron had been able to avoid write-downs on its assets because of its transaction with Raptor. Assets are sold to Raptor, Enron gets the benefit of derivatives from Raptor, and Enron has the benefit of a buffer on its P&L statement. AA says that this situation works perfectly under the accounting rules. Although the structure may be in a gray area, it is fully approved by AA and is fully disclosed.

Fastow offered the following simplified example of how the Raptor vehicles work: LJM2, as a non-Enron affiliated entity, would invest \$30 million in a Raptor entity. Enron committed to contribute stock (initially dedicated to Whitewing which had excess value) to Raptor in exchange

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for which Raptor would issue a promissory note payable to Enron. Enron also took back a special limited partnership interest in Raptor. Enron would then enter into a series of derivative transactions with Raptor to hedge against a decline in value of the assets.

For example, Enron might invest in an IPO. Assuming the IPO had a market value of \$100 million, Enron would then put the asset to Raptor for \$100 million and enter into derivative hedging transactions. If the asset declined in value, the value of the derivative would increase. This would be a wash on Enron's balance sheet.

There are a number of merchant banking investments that could be placed in a Raptor vehicle and a number of derivative transactions that could be made as hedges. An ongoing test was made to assure Raptor's credit-worthiness to support these transactions. At some point in time, the derivative transactions would have to settle.

Insofar as the equity in Raptor, there was a formula providing a return to LJM. (Fastow further stated that this formula was reviewed this board of directors, board committees and office of the chairman). If cash was left over in Raptor after settlement of the derivative transactions, LJM would get it. Fastow thinks this was a unique structure which was developed not by himself, but by Ben Gilsan, now Treasurer of Enron.

Assuming the value of all assets contributed to Raptor increased, the following scenario would occur:

- Enron wrote up the value of those assets on its balance sheet
- Enron would settle its derivative transaction by paying cash to Raptor
- Cash goes to LJM in payment of its fee pursuant to the formula
- All excess cash flows back to Enron through its special limited partnership interests

The "train wreck" under this structure (according to the employee who wrote the letter) would occur if all contingent stock had to be issued. Assuming that Enron would have to issue new stock to fulfill its obligation, it would dilute the earnings per share of Enron stock. The answer, according to Fastow, is that all contingent stock that might be needed to satisfy Enron's obligations to Raptor was included in the earnings per share calculation – thus, no dilution will occur.

Fastow stated that, on the one hand, he applauded the employee who wrote the letter because it takes fortitude to stand up and complain, even on an anonymous basis. He questions the employee's motives, however, because the person is smart enough to know that the structure and all transactions within the structure were reviewed by AA and found to be appropriate. [Fastow also stated his belief that this employee is acting in conjunction with a person who wants his job.]

When LJM was first brought up as an entity to provide equity in Raptor (or similar transactions), the primary issue discussed was the potential "Wall Street Journal risk" – i.e., the bad

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cosmetics being aired publicly. LJM1 was created in June of 1999. It was put together to form a non-affiliated third party for Enron to enter into derivative transactions to hedge its investment in RhythmsNet stock. The Enron stock contributed to make LJM a credit-worthy counter party came from "UBS forwards" created several years earlier by Ed Segnor. Enron shares were issued to UBS and Enron entered into a contract to repurchase those shares in the future at a specified price. The shares held by UBS increased in value and after Enron repurchased them, the excess value was pledged to the RhythmsNet transaction.

LJM1 was capitalized by \$1 million from Fastow and \$7.5 million each from two separate banks. On its \$20 million investment in RhythmsNet, Enron ultimately booked \$400 million.

In returning to the "Wall Street Journal risk" that was discussed at the outset, Fastow was asked why the "friend of Enron" was not selected from some totally third party – a Goldman Sachs or other investment banker. According to Fastow, the reasons were (a) complexity, (b) speed of closing, and (c) confidentiality. By way of example, a bank typically wants to repackage and market products in which it invests, which would jeopardize confidentiality. New deals also came up quickly and banks could not move with the required speed.

The limited partners in LJM1 were two commercial/investment banks. The limited partners in LJM2 included banks, pension funds, insurance companies and high net worth individuals; a total of thirty different investors, none with relations to Enron. The LJM limited partnerships were marketed as unrestricted deals (*i.e.*, not limited to Enron transactions). All materials, including offering circulars, subscription agreements, etc. were reviewed by AA and V&E. AA made comments to LJM partnership agreement to assure that it was not an affiliated entity. LJM had its own attorneys (Kirkland & Ellis) and other limited partners had counsel which reviewed and commented on the LJM documents. The limited partners were also given extraordinary rights, including the power to remove Fastow as manager of LJM without cause. An advisory committee of limited partners was also established to review transactions.

LJM1 had very little equity (\$16 million) and was set up specifically for the RhythmsNet deal. LJM1 actually did a second deal involving a portion of Enron's investment in the Cuiba Power Plant project in Brazil which enabled Enron to book future earnings on natural gas supply contract. Enron sold an \$11 million dollar interest in the power plant, thereby dropping Enron's ownership to below 50%. This made the plant a deconsolidated asset and would permit Enron to value the gas supply contract on a mark to market basis. The future income under the gas contract could therefore be booked as revenue.

LJM2 was much larger fund which was closed in early December, 1999, and raised \$349 million in equity, 1% from Fastow and the remainder from limited partners. By the end of 1999, seven different transactions occurred between Enron and LJM2. In total, LJM2 engaged in 24 transactions, three of which were non-Enron transactions, and four of which were Raptor structures.

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Fastow re-emphasized that the LJM vehicle was approved on several levels. First, LJM was set up with knowledge of the board of directors, its committees, and the office of the chairman. Second, on a transactional basis, Causey was designated to represent Enron. Causey negotiated and approved all transactions. Audit committees of the board of directors were to review all transactions with LJM on an annual basis, and have done so for two years. Scott Sefton, General Counsel of EGF, prepared Causey for the first review and Jordan Mintz, presently General Counsel of EGF, prepped Causey for the second review.

Insofar as the separateness of LJM and Enron, Fastow indicated that this took many different forms. Each employee of Enron who was also working for LJM was covered by a Services Agreement pursuant to which, in effect, LJM reimbursed Enron for the cost of that employee providing services to LJM. Michael Koppers, for instance, had his salary paid by Enron but his bonus was paid by LJM. For another employee, Cathy Lynn, LJM reimbursed Enron for her entire salary and bonus. LJM also had some employees who were not employed by Enron. The rationale for dual employees, according to Fastow, were two: (1) Enron employees could keep their benefits, such as stock options, insurance and the like; and (2) dual employees would be knowledgeable about Enron and work with Enron easily.

Fastow made several comments to indicate that the LJM-Enron relationship had adequate oversight and safeguards. Christina Mordant was General Counsel of EGF at the time LJM1 was formed and the RhythmsNet transaction occurred. Scott Sefton was General Counsel of EGF who prepared Causey for his first audit committee review and was further present when LJM2 was created and many of the transactions with LJM2 occurred. More recently, Jordan Mintz has been General Counsel of EGF for approximately a year and has participated in the oversight of transactions occurring during that time period as well as preparing Causey for his second presentation to the audit committee. Rick Causey has been the primary Enron officer scrutinizing transactions with LJM from the Enron standpoint.

Fastow also pointed out that Enron had no obligation to enter into any transactions with LJM. LJM was set up this way so that there would be no complaints that Enron was required to deal with LJM on any of the four Raptor entities or other transactions.

According to Fastow, the Condor/Whitewing structures have third party investors, some equity interests by Enron, but are subject to the special purpose accounting rules. These entities began in 1997 with NightHawk and then progressed into Condor/Whitewing and Ospray.

Fastow viewed the LJM-Enron relationship as good for LJM and great for Enron. He pointed out that LJM had, however, lost money on some of the transactions it had engaged in with Enron.

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MEMORANDUM

TO: Enron Corp. File
FROM: Max Hendrick, III
DATE: September 18, 2001
RE: Interview with Richard Causey, August 31, 2001

On Wednesday, August 31, 2001, Joe Dilg and the author interviewed Rick Causey ("Causey"), Executive Vice President and Chief Accounting Officer of Enron Corp. ("Enron"), to obtain information relevant to an employee's inquiry regarding the propriety of the Condor/Whitewing and Raptor structures.

Causey stated that he received the employee's anonymous letter from Jim Derrick. He made a brief response to the letter by e-mail and later visited with Ken Lay on this subject. Causey then launched into a narrative description of what he believed to be the relevant events, after which there were follow-up questions in specific areas.

According to Causey, years ago a minority interest financing structure was developed called NightHawk. Enron common stock was supplied to the structure. During that time period the stock appreciated in value, adding value to the NightHawk structure. This structure eventually led to Condor/Whitewing. The structure was carried forward, leveraging off the increased value in Enron stock. This created a larger equity base, together with outside equity, but was still supported by Enron stock. This structure permitted the management of off-balance sheet assets and cash flow.

Causey stated that the value of the Enron stock in the Whitewing structure kept going up. This led to the idea of putting the excess stock value in a Raptor vehicle (of which there were four) to take advantage of this equity. The structure was conceptualized by Ben Glisan. The structure was to use the equity shares—i.e., Enron shares in the Whitewing structure that would be used to support the Raptor vehicles. The value in the Raptor vehicles was to cover losses on swaps.

The Enron stock then started dropping. Raptor may not have enough equity to pay its derivative obligations to Enron. In the first quarter of 2001, contingent shares were issued and Raptor gave back a note. Raptor is restricted from selling for a period of time so the shares were not sold, but the full value of those contingent shares was considered in calculating Enron's earnings per share. At the end of the day, this structure will do its job, but it may be in a more noisy fashion.

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Raptor was created to withstand volatility. It was not created to withstand declining asset values of the magnitude that have been experienced.

Insofar as the impact of these transactions on Enron's earnings, the current target for earnings per share include all contingent share commitments. By reason of recent securities law rules, there is a maximum number of shares that can be delivered in these vehicles. These rules place practical limits on the number of shares that can be delivered that would begin to have an impact if Enron stock goes to \$20 per share or below. Below this level, the consequences of this structure would hit Enron's income statement. All these consequences were known to Jeff Skilling and Ken Lay through discussions of this structure.

According to Causey, the logical windup of the situation would be for Enron to deliver shares to Raptor, Raptor to sell shares in the market, and cash to be paid to Enron in satisfaction of its derivative contract. According to Causey, there is not much use in keeping the Raptor structures in place. There are no more derivative trades that can be conducted with Raptor and those vehicles have reached their limits.

Causey pointed out that Raptor-3 did not involve Enron stock. It involved a hedge with NewPower stock. The NewPower stock price dropped significantly. The receivable hit a high point because of the derivative transaction, but the collateral shrunk. This transaction was not supported at all by Enron stock; however, there is now cross-collateralization of all Raptor structures.

Causey explained the Raptor vehicles and Arthur Andersen L.L.P.'s ("AA") role in approving the structure. LJM is a general partner in the Raptor vehicles; Enron is a special limited partner. AA never provided written approval as to the overall Raptor structure. Causey's approach is to include AA early and consult often on all projects. AA gets all documents and they walk down the path with Enron all the way. Ultimately, AA signs off with an audit opinion and reports to Enron's audit committee. The audit committee has definitely heard reports of hedging with Enron stock.

Causey states that AA has its own documentation of various Enron transactions. Dave Duncan is aware of the anonymous inquiry and went back and looked at the issues and advised Causey that he felt comfortable. AA used its Chicago-based technical group in passing on the Raptor structures. This is all done internally at AA.

Enron also has its own accounting documentation. The anonymous inquiry has made Causey more sensitive and he wants to look back at the documentation to see that it is in good shape.

Causey pointed out that an unfortunate error will require an adjustment to the third quarter statements. In the contingent fee/cross-collateralization transaction that occurred in the first quarter of 2001, the note taken by Enron was booked as a note receivable (an asset) and not a charge against equity. The note should have been booked as a charge against equity and this may have to be corrected in the third quarter statements. This amounts to approximately \$800 million, and together with an expected \$200 million in additional contingent share commitment that will be required in

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the third quarter, will amount to a \$1 billion charge against equity. Causey characterizes this as a simple mistake that now requires correction.

Causey discussed the structural challenge in the Raptor transactions that required outside equity to be at risk. It was known that the Raptor structure would be used to hedge against volatile assets. A "put" on the Enron stock was negotiated with Raptor. The hope was that a put would result in equity being placed in Raptor. AA was well aware of this vehicle and the key issue was whether the third party money was really at risk. The negotiation of the put with LJM was the key factor in this structure.

There are other deals with LJM and business reps at Enron. These people would do the negotiations, then Rick Buy and Causey would review the deal.

Causey points out that there was always a review process in the LJM transactions with Enron. These transactions may not have been subject to independent evaluations, but he considered whether other transactions were considered, looked at the fairness of the transaction and the propriety of the accounting.

Generally, AA looked at any material dealing with LJM - AA needed to do so for purposes of disclosure. The amount of time spent by AA on deals depended on their complexity. AA was involved heavily in the Raptor transactions.

Deals would originate by the business unit looking for earnings opportunities and also monetizing assets to hit their cash flow targets. The decision to involve LJM on a deal was for speed and efficiency - some consideration was given to non-affiliate counterparties, but speed and efficiency normally sent the deal to LJM.

AA had the opportunity to look at and comment on LJM's structure - basically looking at the outside equity in LJM. Causey did not know if AA participated in comments to the partnership agreement, but it may have. AA said it was okay with the structure, but must have known that the structure would be considered unusual.

Causey noted that there were some caveats to a full board of directors approval. The review of the LJM transaction was done with the audit committee. Causey gave two such reports to the audit committee. The finance committee also got involved; he gave them a report at a year-end meeting. Causey identified the document entitled "Related Party Transactions - LJM 2000" as the document used to make a presentation to the audit committee.

According to Causey, Ken Lay and Jeff Skilling would normally be in the finance committee meetings because this was one of the company's most substantive business meetings. Lay and Skilling were possibly there when LJM transactions were reported. There are five meetings/presentations a year with the committee, and perhaps some special meetings.

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The audit committee meeting involved a discussion of the structure of transactions with LJM and they were given a general status of the LJM activities.

Causey explained that the finance committee has approval authority at certain levels of expenditures – capital projects primarily, but not so much interested in the divestment of assets.

Dave Duncan was AA's engagement partner of the Enron account and works primarily with Causey. Depending on the deal and subject matter involved, specific AA partners would be assigned to work with the Enron business unit. If issues ever arose from that work, Causey and Duncan conferred to resolve them.

Causey commented that the Raptor presented a vehicle that permitted the booking of significant revenues. Some new accounting/securities rules came out after Raptor was formed which now diminish the value of the vehicle. The Raptor vehicles were used to hedge a group of volatile investments. Raptor 1 was the start. Raptor 2 and 4 were started because the Raptor 1 vehicle was not large enough. Raptor 3 was a special purpose vehicle in which the NewPower stock was used.

Causey stated that Whitewing is not a "revenue-generating vehicle." It was a structure for placing assets off balance sheet and generating cash flow.

In Whitewing, Enron stock in the vehicle is significant because they are share settleable derivatives. There will be some contingent obligation to deliver shares to satisfy these debts.

The contingent share commitment graph contained in the investor relations booklet reflects a dilution from the Whitewing and Raptor transactions, but it does not discuss those vehicles specifically.

The impact on a \$20 per share price for Enron stock would cause losses to occur in income. Above the \$20 floor, there is sufficient value in the vehicle.

Causey states that there were not many questions on these vehicles by equity analysts until the stock price fell precipitously; now, the news media has focused on the entities, but it is old news to the equity analysts. Causey states that there have been discussions about various risks involved in these vehicles. AA included these risks in its audit issues. Causey has discussed these risks with Skilling and Lay. Causey questions whether someone else might take a different view of these structures? Possibly, and that risk has long been known.

Causey commented that the anonymous employee who wrote the letter is correct that a decline in stock will require more shares to be delivered. These shares, however, are already being considered in calculating fully diluted earnings per share.

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Causey identified Bob Butts, a senior accountant in Enron, and Rodney Feldun as additional Enron employees who might be knowledgeable about accounting and possibly valuation issues now under discussion.

According to Causey, there will be no hit to income as contemplated in the wind down of the Raptor scenario set forth in the letter from the anonymous employee. The impact would be on the capital portion of Enron's balance sheet (*i.e.*, a decline in equity).

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MEMORANDUM

TO: Enron Corp. File
FROM: Max Hendrick, III
DATE: September 14, 2001
RE: Interview with Rick Buy, September 5, 2001

On Wednesday, September 5, 2001, Joe Dilg and the author interviewed Rick Buy ("Buy"). Executive Vice President and Chief Risk Officer of Enron Corp. ("Enron"), to obtain information relevant to an employee's inquiry regarding the propriety of the Condor/Whitewing and Raptor structures.

Before joining Enron in 1994, Buy had ten years experience with Bankers Trust Company in the derivative finance area focused on the energy industry. He has held his current position for 3-4 years and is responsible for the Risk Assessment & Control Group ("RAC") which functions similar to a bank credit committee. This group reviews proposed transactions by Enron and affiliates for the soundness of assumptions, the reality of projections, and identification of underwriting risks. As a result of this analysis, his group will either recommend that a transaction be approved or not be approved.

Typically, Buy's group did not review the structured financing vehicles like Condor/Whitewing – those transactions are largely a repackaging of assets already in Enron, on which no new risks are being taken.

Buy gave examples of the normal type of transaction that his group would assess:

- the purchase of a pulp and paper company in Canada;
- acquisition of an oil and gas exploration company in West Texas; and
- various derivative transactions.

In assessing transactions of this type, the group would function much like a credit committee of a bank in that it would:

- identify the risks;
- assess the financing required and the ability for repayment; and
- assess profit potential.

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This would include a review of the financials to determine what the deal would look like based on various projections. This process would be documented in a Deal Approval Sheet ("DASH") which would present a summary of the transaction, its basic parameters, and the approval of a financial analyst and various supervisors. Andy Fastow's group would also look at and approve these transactions from the securitization standpoint.

In Enron's business, there arose a need for outside equity which led to the formation of LJM. Buy had no involvement in the structure of LJM but was involved in the governance issues and deals in which LJM was an investor. There had to be a process whereby deals with LJM would be assured to be in the best interest of Enron. This process was established from the outset of the Enron-LJM relationship.

Transaction approval for normal deals is detailed and specific. Andy Fastow is normally in the approval chain for those deals. Because of his ownership of LJM, Fastow had a conflict of interest in transactions in which LJM participated with Enron. The process therefore required that Buy and Causey sign off on all LJM deals. This process was in place from the outset and was presented to and approved by Enron's board of directors.

Buy regularly attends finance committee meetings of the board of directors and, in his view, there was lots of information presented about LJM and the finance committee signed off on LJM and the procedure that would be followed for the approval of deals done with LJM. This procedure was derived through discussions among Jeff Skilling, Fastow, Causey and himself (Rick Buy), and then submitted to the finance committee of the board.

Buy described a hypothetical non-Raptor transaction with LJM. A business group would originate the deal, LJM would buy an equity sliver, provide debt financing or the like, and approval would be sought. The review process by Buy's group would not be as rigorous as a normal transaction because the numbers and economics had already been run; this was just LJM taking a piece of the deal. Dave Gorde in the underwriting group would normally review transactions and the underlying detail and would pass on his recommendation to Buy.

According to Buy, Causey would also review the proposed transaction for a "smell test" of the commercial terms and would review the accounting.

Buy commented that the structure was beneficial to Fastow financially, but also beneficial to Enron and Causey to permit the generation of revenues to meet targets at the end of calendar quarters. It was a good vehicle but it needed to be managed carefully.

The deals done with LJM were relatively small – LJM would take a piece of a larger deal done by Enron. Speed of doing the deal with LJM was a key factor; the people knew the deal, the structure, and flexibility was very high. The approval process was not as tight on these deals as in the normal transaction approval process. There was not as great a concern with these deals because all knew it was highly structured.

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Fastow's group would prepare the Enron Investment Summary form. It would be provided to Buy's group and the Deal Approval Sheet (DASH) would be prepared and executed.

The Raptor vehicles in which LJM participated were different because they involved derivative transactions. The credit capacity of the Raptor vehicles changed with the value of Enron stock and the value of the assets in the vehicle. Enron had contributed stock to some prior structured transaction; the stock appreciated in value and there was no good way for Enron to use this increased value in the prior vehicle. Accordingly, Enron shares were contributed to Raptor and Raptor could use the shares as its equity base. This vehicle could be used to hedge Enron's merchant banking assets. At this time, asset values were bouncing around like crazy. RhythmsNet was cited by Buy as an example.

According to Buy, Raptor provided a means to lock up an asset at a certain level. If the asset declined in value, it would eat up Enron equity, not Enron earnings. The problems with the vehicle arose when Buy's group conducted its check on the counter-party's credit worthiness. The equity base in the Raptor vehicles deteriorated to the point where the equity was negative. This posed a problem and Buy picked up the phone and called Skilling to discuss what to do about the structure so that Raptor would be a credit worthy counter-party. Skilling's solution was to wait for a while. Finally the situation got worse and in the third quarter of 2000, supplemental shares of Enron stock were dedicated that would assure credit worthiness of the Raptor vehicles, at least so long as Enron stock was traded above \$20 per share.

Buy stated that his group received daily statements that would show the value of assets in the Raptor vehicles so that its credit worthiness could be traced. The \$20 per share may be slightly tenuous if the asset value placed in the Raptor entities has declined. For instance, NewPower stock has gone down drastically, and some fix may need to be made in the Raptor entity which holds the NewPower stock.

The fix that was done in the second/third quarter of 2000 was the contingent share commitment/cross-collateralization among all Raptor vehicles. [This actually occurred in the first quarter of 2001.]

Buy stated that he (his group) did not spend a lot of time on valuing the Raptor assets. They mostly look at spreadsheets. He views the legal and accounting issues to be more significant than the valuation issue. He views the accounting as aggressive, but that is not his role. The accounting ramifications are under the control of Causey and AA.

Buy is not familiar with the unwind procedures for Raptor. He guesses that Raptor will be shored up with additional Enron stock. The Raptor vehicles need to be capitalized sufficiently to cover the credit exposure from the derivative contracts which fluctuate over time.

Buy stated he was not concerned about the Raptor structure -- he thinks it is a clever structure to put to work the excess value of Enron stock (held in a prior vehicle) and to minimize the volatility

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of the merchant bank assets conveyed to Raptor. He thinks Enron's accounting is aggressive, but not over the line.

Buy believes that valuation is a key factor, but not just today's valuation. It was not necessary for Raptor to be unwound, and those vehicles can be kept as long as they are credit worthy.

Buy commented that had Enron stock stayed high and the value of assets placed in Raptor not fallen sharply, there would be excess capacity in the Raptor vehicles. But these scenarios simply did not happen.

Buy sees no eminent "train wreck" arising from the Raptor vehicles, but he needs to check on the present value of NewPower stock. If the value of NewPower stock – held in one Raptor vehicle – becomes low enough, and the Enron stock has declined as well, that Raptor vehicle may be in an uncreditworthy position.

Buy concluded the interview by stating he will be available to address any follow up questions we might have.

c: Joseph C. Dilg
Houston 649549.1

CONFIDENTIALPrivileged and Confidential:
Attorney-Client Privilege
Attorney Work Product**MEMORANDUM**

TO: Enron Corp. File

FROM: Max Hendrick, III

DATE: September 7, 2001

RE: Interview with Mark E. Koenig and Paula H. Rieker, August 29, 2001

On Wednesday, August 29, 2001, Joe Dilg and the author interviewed Mark E. Koenig ("Koenig"), Executive Vice President Investor Relations, and Paula H. Rieker ("Rieker"), Managing Director of Investor Relations, to obtain information relevant to an employee's inquiry regarding the propriety of the Raptor and Condor/Whitewing structures. Also present during the interview was Rex Rogers, Assistant General Counsel of Enron Corp.

At the outset, Koenig and Rieker questioned the use of Condor and Raptor terms. They pointed out that those were simply internal code names within the Enron business groups, and the disclosures to investors were made with respect to Whitewing and LJM. Koenig likewise stated he was aware of the employee's anonymous letter but questioned why Investor Relations was being included in an investigation of the substance of that letter. It was explained that investors' perception of the Condor/Whitewing and Raptor structures may be useful to the investigation.

Koenig and Rieker recalled that investor questions first came to their attention after the initial disclosures in 1999 in the 10-Q that an Enron senior officer was the managing partner of LJM1, an entity with which Enron co-invested. The proxy materials for 2000 (covering the period through year-end 1999) disclosed that Andy Fastow ("Fastow"), Enron's Chief Financial Officer, was the Enron senior officer who was the managing partner of LJM. They indicated that several investors have spoken directly to Fastow for clarification.

Rieker indicated that there were earlier questions about the Whitewing structure. Whitewing is a securitization issue, but people thought it was a revenue management tool. According to Rieker, much of this confusion was caused by the hedge funds which were always attacking Enron.

Koenig and Rieker indicated they began getting inquiries about Whitewing when Enron's stock price went down. The investor/analyst's questions about Whitewing were directed at unfamiliar terms such as derivatives and required further explanation. Koenig responded that Ken Lay's comments about making Enron's financial reports more reader-friendly related to the

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management discussion and analysis portion of the financial statements, and not the related party disclosures.

Koenig and Rieker indicated that investor/analysts' inquiries over the past six months have turned largely to cash flow, not related party transactions.

In connection with Enron's second quarter results and the second quarter 10-Q, presentations were made regarding the dilutive effect of Enron's contingent share commitment. Because of this contingent share commitment, there was some dilutive effect in the second quarter of 2001. No questions were recalled about the potential dilutive effect that may occur in the third quarter of 2001. Investors are largely concerned about whether a company achieves its earnings per share target.

Koenig and Rieker recalled no specific questions from investors/analysts on the portion of the 2001 proxy statement that addresses four structured entities in which LJM2 participated. Rieker points out that those are probably the Raptor vehicles which are referred to as "Entities" in the financial statements accompanying the various 10-Q reports. The only real noise that investors/analysts raised about LJM is the association of Andy Fastow as the managing partner in LJM.

Although neither Koenig nor Rieker are familiar with the details of the investments with LJM, Koenig was present in a finance committee meeting that reviewed the transactions in detail on a transaction by transaction basis.

According to Koenig and Rieker, investors want simplicity; because Enron's related party transactions are complex and not easily understood, they necessarily raise additional questions. However, they point out that this is not the only complexity inherent in Enron's business, and if there were no related party transactions, they would still have full employment explaining other complexities of Enron's business.

Koenig and Rieker reiterated that the contingent equity obligation is present; it is disclosed; and it is figured into Enron's earnings per share. Rieker referenced the 2001 second quarter analysts' conference where there was a presentation on the dilutive share number increasing from 860 million to 900 million during the preceding twelve months. Any dilutive effect of Enron's share commitment should be so small as to be immaterial, and, in any event, it already is included in the equation of Enron's earnings per share target.

Rieker stated that she believed investors understood that the value of the merchant investment portfolio within Enron (as well as every other merchant investment portfolio) has declined. This may have ramifications down the road, but investors/analysts' inquiries do not delve into this specifically.

At the close of the interview, Rieker supplied the presentation referenced earlier for the second quarter 2001, which was also posted on the Enron web site for a number of weeks. That

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presentation included a page entitled "Contingent Equity Commitments" which analyzed the components impacting share count of Enron stock 2001 versus 2000. The chart shows a dilution of Enron stock by an additional net 29 million shares issued and outstanding in the second quarter of 2001 over and above those existing in the second quarter of 2000. She indicated this was the dilution attributable to the contingent equity commitments to the Raptor and Whitewing vehicles.

c: Joseph C. Dilg
Houston 644504.1

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MEMORANDUM

TO: Enron Corp. File
FROM: Max Hendrick, III
DATE: September 7, 2001
RE: Interview with Greg Whalley, August 31, 2001

On Friday, August 31, 2001, Joe Dilg and the author interviewed by telephone Greg Whalley ("Whalley"), President and Chief Operating Officer of Enron Corp. to obtain information relevant to an employee's inquiry regarding the propriety of the Raptor and Condor/Whitewing structures. Whalley was in London and was not available for a personal interview.

Whalley stated that he had not seen the employee's anonymous letter, although he had heard about it and it took him some time to realize that he knew the author. He further indicated that he knew the author as Sharon Smith (apparently she does not go by the same name today). He does not know, however, why he was named as a person who might share the concerns stated in the letter.

In January or February of 2001, when Enron Wholesale was being put together, he asked a number of questions about the Raptor vehicle. Apparently, this came up when Enron North America employees suggested that he consider possible transactions with Raptor. Whalley sat down with Rick Causey, Chief Accounting Officer, and Ben Glisan, Treasurer, and got the basics of how the vehicle worked and how it was being managed. Once he got comfortable with how the situation was being managed and that Causey and Glisan had a handle on it, he backed off.

Whalley stated that he did not like the Raptor vehicle because of the short-sighted view of value that it fostered. That is, in negotiating a transaction with a third party, one's view of the value of that transaction may be affected because there is always the opportunity to turn around and place the asset in a Raptor-like vehicle and, while recognizing short term value, avoid the long term consequences of the initial trade.

The conflict of interest in dealing with LJM was disclosed and was apparent both within the Enron organization and to outside investors.

At various points during the conversation, Whalley questioned why an investigation was being conducted, that it seemed to be an issue of fact, and that it all hinges on whether the accounting

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structure used in Raptor was appropriate. If it was appropriate, there is no issue, but if it was not appropriate, there is an issue.

Whalley was likewise aware of the possible dilutive effect on Enron's earnings per share in the future if assets placed in the Raptor vehicles declined significantly in value. It was his impression in discussions with Causey and Glisan that there are several options to deal with this problem. He would not share the view of the author of the anonymous letter that these declines in value would lead to major problems in 2002 and 2003. He suggested that Causey and Glisan would be the logical persons to talk with about those options.

c: Joseph C. Dilg
Houston 644987.1

VEL 00022

CONFIDENTIALPrivileged and Confidential:
Attorney-Client Privilege
Attorney Work Product**MEMORANDUM**

TO: Enron Corp. File

FROM: Max Hendrick, III

DATE: September 14, 2001

RE: Interview with David Duncan and Debra Cash, September 5, 2001

On Wednesday, September 5, 2001, Joe Dilg and the author interviewed David Duncan ("Duncan") and Debra Cash ("Cash"), both partners with Arthur Andersen L.L.C. ("AA") to obtain information relevant to an Enron employee's inquiry regarding the propriety of the Condor/Whitewing and Raptor structures. The accounting issues involved in these structures are very complex, and any technical aspects of accounting treatment discussed below should be confirmed for accuracy before being relied upon.

Duncan commenced the interview by stating that he had become aware of an Enron employee who had raised accounting issues regarding the Condor/Whitewing and Raptor structures. Upon internal AA advice, he then contacted Jim Derrick and was placed in touch with Rex Rogers to determine the nature of the inquiries raised by the employee. Duncan and Cash apparently knew the identity of the employee, although they did not reveal it. They further stated that the employee called one of their AA partners who was not assigned to the Enron account and attempted to discuss certain issues with him. That partner contacted Duncan and/or Cash and advised them of the inquiry. Duncan stated that his primary interest was to determine whether any new information had been brought forth by the employee's inquiry.

Duncan first addressed the Condor inquiry. Step 1 is to understand that Condor is a non-consolidated entity. In order to determine that, one looks to control. Condor is under shared control. The party who shares control with Enron has the ability to vote its interest as it sees fit, and also has the right to remove Enron from management. Once all factors are considered, including consultation with AA's technical people and practice staff, it was concluded that Condor qualified as an unconsolidated entity.

Once it is determined that Condor is an unconsolidated entity, the next inquiry is what happens upon a sale of assets to Condor. The first sub-question under this heading is: Is there a sale? The answer depends on what has been sold. If it is a financial instrument there is one set of accounting rules and, if it is a hard asset, there is another set of rules. AA reviewed each transaction on a case-by-case basis to determine from the type of asset whether there was a sale and whether

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there was a gain or loss upon the sale. No gains are realized from sales to an affiliated party such as Condor. If it is determined that a sale has occurred, the asset is moved from the seller's balance sheet to Condor's balance sheet. In accounting for cash flow, there are 3 possible categories:

- operations
- investments
- financing.

Placing revenues into one or the other of the above categories was a key decision. Duncan recalls that the vast majority of sales fell into the operating category. The issue in making that determination is the intent toward the asset at the time of its acquisition. Duncan stated that a textbook example is a large tract of real estate. If initially purchased to hold as an investment and later sold, the revenue would fall under the investment category. If purchased by a real estate developer to subdivide, develop and sell off the lots, the subsequent sales would be placed in the operating category. In Enron's case, the distinction was largely whether the asset was purchased as a merchant bank asset or a strategic asset. The sale of a merchant bank asset would generate operating cash flow.

AA has confirmed the transactions that have been conducted with Condor. AA audits Condor and has completed its year 2000 audit – *i.e.*, all transactions for 1999. The net impact of those transactions to Enron are set forth in a footnote to the financial statements in its annual report. Possible criticism of that footnote is that related parties and non-cash transactions are lumped together and not separated individually. Thus, it is difficult to tell which portion of those revenues relates directly to the Condor transactions.

A question arises whether an asset is a merchant investment or a merchant asset. Merchant investments are marked to fair market value; merchant assets are not. To be investments, they have to be in an investment company. Enron sometimes desires to move items from an asset to an investment category but once their character is declared, it is difficult to do so.

The inquiry of supporting Condor with Enron stock goes back to the initial capitalization with Enron stock. That stock increased in value while it was equity in Condor.

There is literature on (a) special purpose entities and (b) joint ventures. The former is subject to a strict set of rules, while the latter is very subjective. AA believes that Condor falls into the latter category because it is structured. Duncan also believes that the entity would comply with the emerging taskforce principles applicable to special purpose entities.

Duncan commented that the beauty of Condor was the fact that Enron's stock price went up after it was committed to the Condor vehicle. That gave Condor more capacity. Enron may have to do credit checks of Condor-owed obligations to Enron, but he does not think that has been a problem.

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Duncan explained that Enron sold a "put" on Enron stock to Condor. The "put" is share settleable. Where there is debt to another that is supported by the debtor's stock, there is specific guidance in the accounting rules. If the instrument is cash settleable, it moves through income; if it is share settleable, it moves through equity. These shares are also included in the calculation of earnings per share. According to Duncan, this activity is disclosed in footnote 11 to Enron's Annual Report for Year 2000.

Turning to a discussion of the Raptor vehicles, Duncan commented that there was some analogy to Condor in that the Raptor vehicles are also supported by Enron stock. Enron approached AA about using a third party investor – i.e., LJM – to be organized/managed by a senior officer of Enron. Duncan saw technical issues and corporate governance issues and wanted to make sure that approval for the transaction was obtained from the highest levels. As to a technical aspect, Raptor vehicles are one step removed from Condor – instead of an affiliate transaction, LJM would be a third party which would place equity in Raptor. To qualify, the LJM entity had to have unique control features not normally found in the partnerships. The limited partners had to have participatory involvement and the power to remove the Enron senior officer as manager without cause.

In determining whether investment in Raptor was made with third party equity, the contribution of Enron's senior officer to LJM had to be excluded. Further, none of the money contributed by the third parties could be borrowed. AA tested to assure that third party equity was in the transaction. AA viewed the Raptor entities as single purpose entities that had to be capitalized in accordance with specific SPF rules.

The Raptor vehicles were structured to achieve hedges against assets that had gone up in value. This was accomplished by a sale or pledge of the asset to the Raptor vehicle, and Enron getting a note back. Outside equity in the Raptor vehicle had to be three percent (3%). The Raptor vehicle needed to have credit capacity in its equity. Equity was supplied to the Raptor entity by a transaction whereby Enron would sell it stock. When the stock appreciated in value, the increase would increase Raptor's credit worthiness. The key feature was that Enron could settle in cash. The ultimate settlement of the derivative would give Enron cash, not shares – therefore, it would come into Enron as income.

Enron sold the Raptor entity shares with restrictions. In order to value the shares, a fairness opinion was obtained from Price-Waterhouse on the first Raptor-like transaction, and the basic format was used by analogy in subsequent transactions. It was concluded that the impairment test should lead to full market value being assigned to the Enron shares. This gave the Raptor vehicles capacity to do transactions with Enron. Had Enron stock gone up in value, it would have provided credit coverage for any decrease in the asset value. As time passed, the Raptor entity may elect to hedge its exposure. It purchased a derivative to hedge on the stock. This was a share settleable hedge. The impact was on equity, not income. When settleable, the payment by Enron in stock would not affect the income statement.

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A number of scenarios can be envisioned depending on whether the stock and assets go up or down in value. If both stock and assets go up, the Raptor entity can settle with Enron and Enron can show income. If the stock goes up but assets go down, the entity can still settle and Enron will show income. If both stock and assets go down, Enron can settle with the impact being in its equity, not income position.

Duncan states that all of this is disclosed; nothing is left out that needed to be included in AA's audit opinion.

The key feature in Raptor transactions is the hedging activity. The man on the street may look at the share settleable hedge and question how it will work.

During the interview, Duncan raised the question of whether it would be appropriate for AA to visit with the Enron employee who made the inquiries. The point was made that the employee's inquiries might better be satisfied if she sat down with AA and received an explanation. From AA's standpoint, it simply wants to assure that there are no new facts raised by the employee.

Duncan explained that when the Raptor vehicles were originated, Enron sold a put that could be exercised by Raptor. After 60-90 days passed, and Enron stock had appreciated, the put would be settled by cash payment to the Raptor entity. Upon settlement, Raptor would distribute money to its equity investors. Once the distribution was made, the investors had amounts returned equal to their investment plus profit. Yet, technically, their investment had been properly made. The question is whether there is a valid business reason for the "put" transaction and AA relies on Enron's representation that a good business reason exists. Although this accounting treatment may look facially questionable, it satisfies the technical requirements.

Procedurally, AA reports to Enron's credit committee five times a year. The Condor and Raptor transactions have been discussed with them. The detail is not high, but information is available. There are not a lot of questions by the audit committee. A list of transactions entered into since the last meeting is generally discussed and approval is received for those transactions.

The audit committee is presented with a booklet of information for its review before or at each meeting. The booklet of the audit and compliance committee meeting held February 12, 2001, was examined as a sample. The booklet in similar form is presented for each meeting.

According to Duncan, Enron has never failed to follow AA's recommendation on technical and accounting matters. AA does not audit LJM, but had discussions with Fastow about whether they should or wanted to audit LJM.

AA pointed out the need for better documentation and analysis of transactions involving LJM. At some point in time, Enron adopted a Deal Approval checklist for these transactions.

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Duncan, Cash and two other AA partners are full time on the Enron account. They have lots of discussions about lots of issues with Enron. AA has discussions internally on Enron issues, both from the practical standpoint and from a technical side. The structured transaction such as Condor and Raptor issues are discussed thoroughly with these internal groups.

c: Joseph C. Dilg
Houston 651256.1

CONFIDENTIAL**DRAFT: October 23, 2001 (2:45PM)**Privileged and Confidential:
Attorney-Client Privilege
Attorney Work Product**MEMORANDUM**

TO: Enron general file (re: Accounting Issues)

FROM: Max Hendrick, III

DATE: October 22, 2001

RE: Telephone Interview with Jeffrey McMahon on October 18, 2001

On October 18, 2001, Joe Dilg and the author interviewed Jeffrey McMahon ("McMahon") by telephone. McMahon had previously been interviewed in connection with the investigation into the allegations contained in an anonymous letter and supplemental materials authored by Sherron Watkins. The supplemental interview was occasioned because of information relayed by Steve Kean ("Kean") to the effect that McMahon had made several statements regarding the LJM transactions that seemed inconsistent with statements he had previously made in his interview. The focus of the supplemental telephone interview was to clarify those points on which there was potential inconsistency.

Leaving the Office of Treasurer under Duress

McMahon initially stated that his comments to Kean were made immediately after learning Enron had been sued in a derivative lawsuit regarding the LJM transactions. He wanted Kean to know that there were certain areas of concern that would, no doubt, come under scrutiny as a result of the lawsuit or further legal or SEC inquiry.

By way of history, McMahon stated that he had approached Andy Fastow ("Fastow") many times about how the LJM issue was being treated. Fastow was wearing two hats but still in charge of and superior to people negotiating for Enron. Employees subordinate to Fastow were charged with responsibility for working on LJM matters; Enron and LJM were operating out of the same space. Reference to Fastow's ownership in LJM was used as a subtle stick in negotiations against Enron. All of these factors (previously discussed in the initial interview) contributed to McMahon's view that there was a conflict of interest.

Fastow never addressed these problems, whereupon McMahon felt compelled to discuss the issues with Jeffrey Skilling ("Skilling"), Enron's then President and Chief Operations Officer. McMahon advised Skilling that there were major conflicts of interest, but that those conflicts could be resolved. The people involved in the LJM conflicts were not responding well, and it was a

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stressful situation. McMahon did not present an ultimatum to Skilling (he volunteered that presenting ultimatums was not the way one could deal successfully with Skilling). He simply presented the fact that he could not compromise his position in light of the existing conflict of interest. Either some changes had to be made to resolve the conflict of interest or Skilling needed to find McMahon a new position. Several weeks later Skilling encouraged McMahon to take the job with Enron Networks, but Skilling did not link this to the conflict of interest with LJM.

McMahon believes that there are lots of people who know about his position and complaints about the conflict of interest. There may be a general perception that McMahon was "forced out" of the Treasurer's position as a result of this, and McMahon thought that Kean should be aware of this potential problem.

Pressure on Enron's Bankers to Invest in LJM

McMahon believes that a lot of the adverse publicity may be coming from bankers who believe they were pressured to invest in LJM. Several bankers came to McMahon and inquired whether an investment in LJM gets them an inside position for Enron business. McMahon consistently responded, "Not as far as I'm concerned." At later points in time, at least two bankers came to McMahon and said that they were promised business in turn for their investment in LJM.

McMahon recounted that First Union Bank's Paul Riddle called and complained about not getting a bond deal. He stated that he was promised the next bond deal for investing in LJM. McMahon's response was to the effect, "Not by me, you're talking to the wrong guy."

Merrill Lynch (no name given) commented, not by way of sour grapes, but simply as fact that it was felt linkage existed between investment in LJM and Enron business.

Deutsche Bank did not invest in LJM, but thought there was a linkage and felt it was improper.

Chase Bank felt there was a linkage between an investment in LJM and Enron business.

McMahon made clear that he had no first-hand knowledge – he was not present when any pressure was put on a bank to invest in LJM. He is concerned, however, how other Enron officers may have to testify on this subject. McMahon identified the following Enron employees as having had discussions with banks and who can comment more directly on the possibility of pressure being put on them to invest in LJM: Ben Glisan, Tim Despain, _____ Brown, Ray Bowen and Kelly Boots.

After he left the Treasurer position, McMahon never saw anything fishy about the way bank business was given out, but he was totally out of the loop. While he was Treasurer, he never saw anything about giving business to banks that he thought was improper or he would have "pulled the red chain."

CONFIDENTIALBuy-out of Michael Koppers' Equity in JEDI-1

McMahon recounted that when Calpers was bought out as an equity owner in JEDI-1, Michael Koppers ("Koppers"), an Enron employee who worked for Fastow, was used as a replacement equity owner. The JEDI-1 structure was administrative burdensome and McMahon thought the equity (then owned by Koppers) should be bought out. He understood that Koppers had invested approximately \$100,000 a year before. He discussed the possible buy-out with Fastow and felt Koppers could easily be bought out at a modest profit. Fastow said that he would handle the negotiations with Koppers.

There was actually a formula built into the JEDI investment whereby Enron could effect the buy-out. Going by the formula, Koppers would be entitled to approximately \$22 million. McMahon felt like Koppers should not even get \$1 million. As McMahon understands it, Koppers was to get \$10-12 million as a result of the final negotiations. McMahon's discussions with Fastow on this subject were in January-February of 2000, shortly before he left as Treasurer. He thinks the deal did not close until early 2001.

McMahon's concern about this buy-out of Koppers in JEDI-1 was based on rumors that Koppers used the money from JEDI-1 to buy out Fastow's position in LJM. Many people assume that this was the case, but McMahon again has no personal knowledge. He thinks the same financial executives named above plus Kevin Howard would either have knowledge or a view of this situation.

Pressure on Enron Representatives Negotiating with LJM

McMahon believes that the lawsuits and related inquiries are going to look for all leakage out of Enron to LJM. People who negotiated for Enron against LJM will probably testify that they felt pressure. One example, which he gave in his prior interview, was Doug McDonald negotiating on behalf of Enron against Koppers. McMahon was at home, received a call from Fastow, who complained about McDonald negotiating too hard. As it turned out, Fastow had the facts wrong and ultimately backed off.

McMahon has no personal knowledge of deals that were against Enron's interest or well-being, but he is concerned about this subject. He gave the following names of individuals and situations that indicate that they may be the source of information unfavorable to Enron's position in this regard:

Kevin Howard – a good person to talk to about pressure exerted on Enron professionals negotiating against LJM;
Ray Bowen – another guy who got chewed out for negative comments about the LJM situation;
Cliff Baxter – frequently in Skilling's office complaining about LJM and Fastow's conflict of interest;

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Ken Rice – same story;
Paul Chivens – an ex-Enron London guy now with Credit Agricole in Paris; and
Mike Jakgbi – hired by McMahon to set up a private equity fund. McMahon wanted a friendly source of capital to do deals. By the time Jakgbi arrived for work, Fastow had set up LJM, which was exactly the same concept. Jakgbi felt that Fastow stole his concept. He is now the relationship person for Enron with Deutsche Bank.

As a final note, McMahon stated that the Bloomberg release has lots of information concerning the derivative lawsuit filed against Enron.

MHIII

c: Joseph C. Dilg

Houston 690086.1

Watkins, Sherron

From: Watkins, Sherron
 Sent: Tuesday, October 30, 2001 4:45 PM
 To: Tilney, Elizabeth
 Cc: Olson, Cindy
 Subject: PR for Enron

Beth,

Attached is the handout I gave Ken Lay today in our very brief meeting; I think I left you a voice mail on this.

Ken thinks it would be a good idea for me to work for you in our PR and IR efforts re: our current crisis. Beth I think you know my involvement from Cindy, and that I haven't really had a real job since my first meeting with Ken re: these matters in late August. I can jump on this asap.

The viewpoint is that I can effectively play devil's advocate on the accounting issues and be sure we anticipate the tough questions and have answers. My personal opinion is that it's very hard to know who in the organization is giving us good answers and who's covering their prior work.

The attached outlines my viewpoint on the fact that I think we need to come clean and restate; Ken and I did not get much chance to discuss this; I'm tentatively on his schedule Wed afternoon. I'd sure like to meet with you on this. I have one meeting on Wed that I can change. Please call. Thanks.



Disclosure steps to
rebuild in...

Sherron S. Watkins
 Vice President, Enron Corp.
 713-345-8798 office
 713-416-0620 cell

Private Placement Opp

1. SIT Capital/Credit
2. CIT " / Equity
3. SEC
4. Capital Mkts

SW(HSE&EC)0023

— Don't just SEC 3rd!

Disclosure steps to rebuild investor confidence:

1. Lay to be open about his involvement or more importantly, his lack thereof:
 - a. As CEO, he relied on his COO, Skilling, as well as CFO, Fastow and CAO, Causey, to manage the details. Of note: CFO and CAO are Skilling's picks from his rise to the COO spot in late 1996.

[It's fairly normal for a CEO to leave the accounting details and finance details to the COO, CFO and CAO]
 - b. Lay to admit that he trusted the wrong people.
2. Lay to admit that as soon as Skilling resigned employees reported to him their opinions as to the inappropriate LJM transactions.
 - a. Lay appropriately took the matter seriously and he began an investigation; however:
 - b. Mistake #2: He relied on V&E and Arthur Andersen to opine on their own work. They advised him to unwind Raptor, but that the accounting was appropriate when recorded in 2000.

Joe Dilg's Oct 16th comment to me when I said that Lay should probably come clean and admit problems and restate 2000, in order to preserve his legacy and possibly the company's was the following:

"Are you suggesting that Ken Lay should ignore the advice of his counsel and auditors concerning this matter?"
3. Lay to state that once the 3rd Quarter write downs and reversals were disclosed and investors raised concerns and it became apparent that Enron could not easily resolve the issues by making more detail disclosures, he realized that the advice from V&E and AA&Co was wrong, it was motivated by self preservation.
 - a. First, the LJM Raptor transactions were highly irregular and Enron is restating 2000 financials.
 - b. Second, he's firing Arthur Andersen & Co and V&E
 - c. Third, he's committed to staying at Enron and returning the company to its former glory.

NOTE: After restatement, the good news is that our core trading business is solid with strong numbers to report; the bad news: EBS was losing big

money in 2000, the big losses didn't start in 2001, and EES did not start making a profit in 2000.

4. Lay to meet with top SEC officials. This is a problem we must all address and fix for corporate America as a whole. Ken Lay and his board were duped by a COO who wanted the targets met no matter what the consequences, a CFO motivated by personal greed and 2 of the most respected firms, AA&Co and V&E, who had both grown too wealthy off Enron's yearly business and no longer performed their roles as Ken Lay, the Board and just about anybody on the street would expect as a minimum standard for CPA's and attorneys.
 - a. This is devastating to many – investors, the energy trading sector, the banking sector, the Houston economy – Enron could work with the SEC to develop a plan to address this calmly.
 - b. Ken Lay and Enron need to support one of the SEC's long term objectives of requiring that the Big 5 accounting firms rotate off their large clients on a regular basis as short as 3 years.

My conclusions if Ken Lay takes these steps:

1. The bad news: This is horrific. Plaintiff attorneys will be celebrating. The trouble facing the company will be obvious to all.
2. The good news: the wild speculations will slow down, if not cease. Nobody wants Ken Lay's head. He's very well respected in business and the community. The culprits are Skilling, Fastow, Glisan and Causey as well as Arthur Andersen and V&E. The energy trading sector is scared to death that Enron won't make it – there will not be a cry for Enron's collective head.

Likely Enron outcome:

The stock price will drop further

Hard to take over – it's people and trading business (ie, not contractual, not asset based)

Does Enron need to find a Warren Buffet type equity investor?

Can we build a ring around the trading business? How long will that take?

Will a restatement announcement hurt liquidity any more than our current situation?

My conclusions if we don't come clean and restate:

All these bad things will happen to us anyway, it's just that Ken Lay will be more implicated in this than is deserved and he won't get the chance to restore the company to its former stature.

*Public Investor opinion
Credit
Tore in the 7
& we would succeed
()*

SW(HSE&EC)0025

Watkins, Sherron

From: Denne, Karen
 Sent: Sunday, November 25, 2001 3:53 PM
 To: Watkins, Sherron
 Subject: RE: Erroneous press

Sherron -- I realize I am incredibly behind on my emails, but was plowing through my inbox and would be interested in knowing the continuing degree of interaction we have w/ LJM -- if only so we're consistent w/ what we say to the media about our relationship w/ LJM. Thanks. karen

-----Original Message-----

From: Watkins, Sherron
 Sent: Thursday, October 25, 2001 1:47 PM
 To: Denne, Karen
 Cc: Kimberly, Kelly
 Subject: FW: Erroneous press

Karen, I ran into Kelly and voiced my concerns re: the email below. She let me know that Mark Palmer is probably too busy to read all emails, etc. and that you were the best person to send this email to. Thanks and call me about it if you'd like.

-----Original Message-----

From: Watkins, Sherron
 Sent: Thursday, October 25, 2001 11:30 AM
 To: Koelg, Mark; Palmer, Mark A. (PR)
 Cc: McMahon, Jeffrey
 Subject: Erroneous press

Mark, I'm sure you are aware of the comments in the press that I have copied and inserted here below. There have been others that are similar. Basically, the press is reporting that we have dissolved the LJM partnerships, ended all relationships with the LJM entities, etc. All that we have done is unwind the raptor entities, LJM still exists, all other transactions with LJM still exist, it's just that Andy sold his interest in the partnerships. Michael Kopper owns them and would probably be considered a "friend of Enron" by investors/journalists.

I'm concerned about our efforts to build back investor confidence - do we correct the press? how do we address this? I'm concerned that we will once again be hit with credibility concerns when the press or investors fully understand that LJM still exists and we have deals still pending with it and have deals still in place with it. How do we correct this erroneous press? Sherron Watkins

Excerpts:

"Enron has been under fire since last week as questions have surfaced about its accounting practices, especially in regard to two limited partnerships created by Fastow in 1999 and since dissolved" By Lisa Sanders, CBS.MarketWatch.com

Last Update: 10:05 AM ET Oct. 25, 2001

"...So Fastow, in June, resigned his roles at the partnerships and Enron also ended its relationships with the LJM entities." Houston Chronicle article from today.

Sherron S. Watkins
 Vice President, Enron Corp.
 713-345-8799 office
 713-416-0620 cell

Watkins, Sherron

From: Watkins, Sherron
 Sent: Monday, November 26, 2001 9:25 AM
 To: Denne, Karen
 Subject: RE: Erroneous press

I'm sure you are aware that LJM is not dissolved and there may be some lingering transactions between Enron and LJM. I was worried because the press was reporting erroneous facts that should be corrected. Sherron

-----Original Message-----

From: Denne, Karen
 Sent: Sunday, November 25, 2001 3:53 PM
 To: Watkins, Sherron
 Subject: RE: Erroneous press

Sherron -- I realize I am incredibly behind on my emails, but was plowing through my inbox and would be interested in knowing the continuing degree of interaction we have w/ LJM -- if only so we're consistent w/ what we say to the media about our relationship w/ LJM. Thanks. Karen

-----Original Message-----

From: Watkins, Sherron
 Sent: Thursday, October 25, 2001 1:47 PM
 To: Denne, Karen
 Cc: Kimberly, Kelly
 Subject: FW: Erroneous press

Karen, I ran into Kelly and voiced my concerns re: the email below. She let me know that Mark Palmer is probably too busy to read all emails, etc. and that you were the best person to send this email to. Thanks and call me about it if you'd like.

-----Original Message-----

From: Watkins, Sherron
 Sent: Thursday, October 25, 2001 11:30 AM
 To: Koenig, Mark; Palmer, Mark A. (PR)
 Cc: McMahon, Jeffrey
 Subject: Erroneous press

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MEMORANDUM

TO: Enron File

FROM: Lisa Henriquez

DATE: January 16, 2002

RE: Keri Lay Interview

On January 16, 2002, Chuck Davidow, Bill McLucas and Lisa Henriquez of Wilmer, Cutler & Pickering ("WCP") and Jeta Sullivan and Ben Farmer of Deloitte & Touche (an accounting firm retained by WCP), spoke with Kenneth Lay, CEO of Enron, at Enron's Houston headquarters to gather information from him in order to allow WCP to provide legal advice to the Special Committee of Enron's Board of Directors. Dean William Powers, Chairman of the Special Committee was also present. Earl Silbert and Richard Oparil of Piper Marbury Rudnick & Wolfe LLP were present and represented Mr. Lay. Mike Ramsey, solo practitioner and Elizabeth Vitter, solo practitioner, were also present. Bob Bennett and Carl Ruck of Skadden, Arps, Slate, Meagher & Flom LLP, counsel to Enron, were also present.

This memorandum has been prepared by counsel in anticipation of possible litigation arising from a Securities and Exchange Commission ("SEC") investigation and any parallel or related proceedings. This memorandum incorporates the mental impressions, analyses and opinions of counsel. As such, this memorandum is intended solely to assist counsel in providing legal representation and advice to the Special Committee of Enron's Board of Directors, and is not intended to provide a substantially verbatim recital of Lay's statements. The interview was based on WCP's understanding of the facts and review of documents as of the date of the interview. Furthermore, Lay has not reviewed this memorandum. Therefore, this memorandum may contain inaccuracies and the following discussion of certain events may be incomplete or lack context.

At the outset, Davidow explained that WCP represented the Special Committee appointed by the Board to investigate certain transactions between Enron and related parties, and we were speaking to him as part of that investigation. Davidow stated that we did not represent Enron's officers or employees, making him, that, in our view, the conversation was privileged but it was the Special Committee's (or Enron's) privilege, and that the Special Committee or Enron could decide what to do with the privilege, not him. Davidow stated that Lay should anticipate that anything he told us would be conveyed to the Special Committee, and that the information could be communicated to others, such as the Board, others associated with Enron, and the Government.

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Experience:

Lay attended the University of Missouri and received a master's degree in economics in 1965. He then accepted a position with what is now known as Enron, as a corporate economist in the Corporate Planning Department. In May 1968, he was commissioned to the Navy and assigned to the USS Pecongon. He spent three years in the Navy and served as Technical Assistant to the Commissioner of the Federal Energy Regulatory Commission. From 1971-1974, Lay served the civilian government as a top assistant to International Regulation. From 1972-1974 Lay was the Deputy Undersecretary of the U.S. Department of Interior and focused on energy policy.

In 1974, Lay accepted a position with Florida Gas Company in Winter Park, Florida. While at Florida Gas, Lay served as Vice President Corporate Planning, Vice President of Gas Supply, President of the Pipeline and then President of Florida Gas. Lay then became Executive Vice President of Continental Group.

In 1981, Lay was President, CEO and member of the Board of Transco. In 1984, Lay became Chairman and CEO of Houston Natural Gas, which in 1985 was bought out by Interoil, a company based in Omaha, Nebraska. Four months after the buyout, in November 1985, he became CEO. This company was the predecessor to what is today known as Enron. From February 1986 through February 2001, Lay served as CEO of Enron. In February 2001, Lay stepped down as CEO and Jeff Skilling filled the position. In August 2001, Skilling resigned as CEO and the Board of Directors offered the position to Lay. Lay accepted and is currently CEO.

Accounting Knowledge:

Lay took twelve hours of accounting in college because he thought it would prepare him for business. He has a general knowledge of accounting and is able to read a balance sheet. He is familiar with the term SPE, and knows they are off-balance-sheet vehicles used for project financing. Lay did not understand the structure's requirements for SPEs until October 2001. He does not recall if he knew prior to October 2001 the 3% equity requirement for SPEs. He did not think the SPEs were unique. He does not recall hearing about SPEs prior to 1997.

Lay has a general knowledge of derivatives. He is familiar with puts, calls, collars and swaps from his experience with the wholesale side of the energy business.

Enron's Business Direction:

In 1985, Enron's business focused on traditional pipeline business. The business was strong, but growing at a slow rate. In the early 1990's, Enron started a wholesale business, which was the main source of growth through the mid-1990s. Enron started in the electricity business around 1996 and moved the business into Europe. In 1997, Enron launched its retail business and Enron Energy Services. At the same time, Enron was trying to expand in California but, in the end, decided not to enter the California market.

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From 1996 to 1998, approximately 60% of the earnings were generated from businesses Enron was not engaged in ten years previously, and approximately 30-40% of Enron's profit was from businesses that Enron was not engaged in five years previously.

Enron also wanted to expand to other regions of the United States and the world. In 1990, Enron had a successful natural gas business in England called Tieside. Enron also expanded to India and the Southern Cone. For example, TGSJ was Argentina's biggest pipeline. Enron wanted to start its international expansion in the United Kingdom and then grow to the Nordic countries and eventually continental Europe. In India, Enron had a major pipeline that stretched from Dabhol to Mumbai. Enron also expanded to Japan and Australia.

In 1998, Enron tried to get into the water industry. Enron had the right concept but the implementation was wrong.

Enron expanded to broadband when it bought Portland General Electric ("PGE"). PGE had laid fiber in Portland and Enron expanded it from Portland to Salt Lake City, Las Vegas and back up the coast. By 2000, Enron had a nationwide backbone system of broadband fiber. The system was designed to be digital only. Enron entered into a venture with Blockbuster to deliver entertainment on demand to expand the broadband industry. Enron thought there was a real future in the idea because Sprint and Qwest were very interested in broadband.

The basic business model Enron used was to buy an asset and then expand it by either expanding into other regions of the country or the world or by building a wholesale or retail business around the asset. The model was very successful when it was applied to industries that were still tightly regulated.

Off-Balance-Sheet Trading:

Enron utilized off-balance-sheet transactions because the company was growing quickly and the balance sheet was not large enough to handle the growth. Enron could either significantly decrease the growth rate or continue to grow rapidly by utilizing off-balance-sheet transactions. Tieside was the largest off-balance-sheet finance transaction.

There has been intense pressure from the market for earnings since 1993. Lay believes that stock purchasers want to buy a stock in companies that have that growth price/earnings ratios, but also quality and sustainability of earnings. Therefore, companies must balance producing earnings and maintaining quality.

Jeff Skilling:

Lay was introduced to Jeff Skilling in 1985 when Skilling worked for McKinsey & Co. Skilling is a graduate of Harvard and is very bright. Skilling was on the fast track at McKinsey and ran a section of McKinsey's worldwide group at the age of 35. Lay tried to recruit Skilling to join Enron in 1988 and 1989 when Lay was working closely with Skilling on deregulation issues.

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In 1990, Skilling joined Enron. Skilling was one of the driving forces behind creating a financing company for energy, which led to Enron Finance Corporation. In the late 1980s banks no longer provided financing to energy companies. A lot of good energy companies had assets, but did not have a way to finance and develop them. Enron decided to create a business that would provide financing to energy companies. Enron based its financing model off the payment model used in 1930's. In addition to financing, Enron provided its clients transportation, marketing, pools of supply in marketsplaces, and long and short term plans in addition to the financing. The business was very successful.

Lay described Skilling as a strategic thinker, creative and always coming up with new ideas. He had a strong sense of finance. Lay felt that Skilling had good judgement and integrity in his business dealings. Lay never felt that Skilling was trying to manipulate him, and he always kept him well informed on Enron business.

When asked to identify any of Skilling's weaknesses, Lay said he was never able to relate well to most of the employees. The employees that worked directly with Skilling had a great deal of respect for him and were loyal, but the average employee did not always relate to Skilling. Sometimes employees felt that Skilling spoke down to them because he was so bright. Skilling also had a fast tongue, as was evidenced in a call with analysts.

When Lay stepped down as CEO, he wanted to make the transition seamless. He started to turn responsibilities over to Skilling. Skilling would take the responsibilities and run with them. After Lay stepped down as CEO, Skilling appropriately slowed the flow of information to Lay. After stepping down as CEO, Lay concentrated on other areas of Enron business, like problems in California.

Chewon

Prior to October 2001, Lay has no specific recollection of who brought CalPERS' interest in JEDI I. He knew that CalPERS wanted to liquidate its position in JEDI I and vaguely recalls a meeting where this was discussed. He thought that there was a team that was going to work with CalPERS to facilitate the liquidation. He did not think it was an unusual transaction because CalPERS wanted to invest in JEDI II.

Lay never spoke with anyone at CalPERS regarding the buyout, but vaguely remembers being introduced to CalPERS consultants. Factor and Skilling were meeting with the CalPERS consultants and brought them to meet Lay in his office.

Chewon's buyout of CalPERS was addressed in a November 3, 1997 Executive Committee Meeting. Lay did not recall why the Executive Committee addressed the issue and not the Board. The Executive Committee has the power to act on behalf of the Board. It is possible that a decision was needed in a timely manner and therefore the Executive Committee handled the issue. There was a presentation to the Executive Committee that explained the structure and the implementation of Chewon. Lay did not recall the details of the presentation. One of the slides in the presentation makes a reference to the "Enron Guarantee Book." That

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term did not have any meaning to Lay. The minutes reflect that Lay joined the meeting after the Chewco presentation.

Lay does not recall learning about Chewco's buyout of CalPERS' interest prior to the meeting. Normally, Skilling and Lay would meet one to two times a week. All matters that are brought to the Board or the Executive Committee are usually discussed prior to the meetings.

Lay does not know Michael Kopper and would not recognize him. He first became aware of Kopper in October 2001 when he read an article in the Wall Street Journal. When Lay read the Wall Street Journal article, two things jumped out at him: 1) he had never heard of Chewco and 2) an Enron employee was involved. Lay thought that the only related-party transaction was Andy's involvement in LJM. Lay believed that if he had known of another party involved in related-party transactions, he would have remembered.

Lay has the authority to grant a waiver of Enron's code of conduct. No one involved in Chewco requested a waiver from Lay. Lay would expect that if Enron employees knew that someone violated the code of conduct, that person would inform Lay. Every employee at Enron must sign off that they received a copy of the code of conduct each year.

In the first quarter of 2001, Enron consolidated JEDI L. There is no indication in the Board minutes that this consolidation was ever presented to the Board. Lay did not know about the consolidation and does not recall that the consolidation was ever brought to the Board.

Lay did not recall being aware of a tax indemnification paid by Enron to Chewco involving Fastow and Skilling.

LJM:

Lay refreshed his memory about LJM by reviewing Board minutes and his calendar. Lay first heard about LJM when he returned from an international trip about ten days before a Board meeting in 1999. Fastow and Skilling met with Lay before the meeting. Lay could not recall if Kristine Lundquist was present at the meeting. They discussed the fact that Enron had a large position in Rhythms that they wanted to hedge. The Rhythms stock had increased in value quickly and they wanted to protect its gain from future volatility. Skilling and Fastow created a proposal on how to hedge the Rhythms stock by creating a partnership, LJM. Fastow would be the general partner. The group generally discussed the potential conflict of interest. There was no proposal on how to mitigate the conflict of interest at the time. They did discuss that some length negotiations were needed between the new partnership and Enron. After Lay's discussion with Skilling and Fastow he supported the idea and thought the idea should be taken to the Board.

No efforts were made to find a commercial third party because the market was moving quickly and the hedge had to be in place in a timely manner. There was no time to find a third party.

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Lay never directly asked how much Fastow would make from his involvement in LJM. Lay did not think it was relevant because Fastow was concerned that if he created LJM it would impair his career at Enron. Fastow was willing to create the structure, but wanted to ensure that his career at Enron would not be affected by being involved with LJM. Another reason Lay was not curious about Fastow's compensation from LJM was because LJM was supposed to be used only once. The partnership was capable of engaging in other deals, but would only do the Rhythms hedge.

Jim Derrick, Lay and Fastow made a presentation to the Board proposing LJM. Lay generally recalls the presentation. At the Board meeting there was a lively discussion about the partnership. The Board was concerned with possible conflict of interest issues, the roles of the CFO of the company creating a partnership that transacts with the company and protecting the company. A process was created to protect the company. Rick Crutney and Rick Bay were designated to review the deals and ensure that all deals were done at arm's-length. Some members of the Board had doubts about the partnership, but in the end, LJM was approved. Lay could not remember what Board members had concerns. He thought that possibly Norman Blake asked some questions because he always asked penetrating questions during Board meetings.

The proposal for LJM1 did not go to the Finance Committee because there was a timing issue. The Board has the authority to act on issues of this type without prior approval by the Finance Committee.

After the Board approved LJM, the transaction was executed. Lay had no recollection of being informed of any changes to the transaction. The people involved in the transaction are responsible for making sure that the Board's resolutions are carried out. If there are significant changes, then the Audit Committee needs to review the transaction.

Lay does not recall any discussions in Board meetings about whether the Rhythms transaction was an economically effective hedge considering the hedge was with an entity that did not have a lot of equity and was mostly funded by a loan from Enron. The discussions in the Board meetings were primarily about the related party issue. Lay did not delve into the issue whether or not the hedge was an effective economic hedge because Fastow and his team said they had scrubbed down the transaction and it was proper. Lay did not think there was a distinction between an economic hedge and an accounting hedge.

Lay did not know about the unwind of the Rhythms transaction in early 2000, and did not know why it was not brought to a Board meeting. He did not have a recollection of payments made by Enron to LJM during the unwind.

He was not aware of any payments or loans by Enron to LJM1. He also was not aware that these funds contributed to the entity that Ben Glisan and Mordant invested in, nor the fact that LJM1 arguably should have been paying Enron instead of receiving money.

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Guiba:

Lay did not recall discussions about Guiba, but was able to refresh his memory about the deal when he reread Board minutes. Guiba was a large project in Brazil that encountered a number of reconstruction problems. Lay did not recall any connection between Guiba and LJM. Lay had no recollection that Guiba was significant to the earnings in 1999, or that Barron bought back LJM's interest in Guiba after there were problems in that project.

LJM2:

The purpose of LJM2 was to provide an additional source of capital for investments in a timely manner. Usually, Skilling and Lay would discuss the agenda prior to the meeting, but does not recall a discussion before the Finance Committee meeting about LJM2.

When the proposal to create LJM2 was brought to the Finance Committee there was a vigorous discussion about the partnership. There was a longer and more in depth conversation about LJM2 because it was going to be a larger partnership and was going to engage in more deals with Barron. Fastow was going to be the general partner of LJM2 and, therefore, more detailed and clear policies and procedures for transacting with LJM2 were created. The Committee wanted to protect the shareholders and make sure that the transactions were done at arm's-length. The Committee discussed the issue of the optics that the CFO was going to be the GP of a partnership that was going to transact with the company. The Committee and the Board discussed what it would look like to an average person if it was known that the CFO had a partnership that transacted with the company. Once again, Fastow said he had reservations about being involved in the partnership because of possible adverse effects on his career and opportunities at Barron. Fastow said he was willing to create LJM2 because it was in the best interests of the company and the company wanted him to do it.

Lay did not know who came up with the idea of LJM because Skilling and Fastow presented the idea together. Lay does not recall any other Barron employees that were going to invest in or manage LJM.

Lay had the authority to grant waivers to the code of conduct, but in this case the Board of Directors granted Fastow the waiver. Lay said that LJM consumed a lot of attention by the Board and since LJM2 had a significant size, the Board felt it advisable to grant the waiver. Fastow also requested that the Board grant the waiver to the conflict. The Board said it would grant the waiver so long as procedures were put in place to make sure the transactions were made at arm's-length and to protect the shareholders.

Lay did not recall any discussion during the meeting about Fastow's compensation. Lay understood that Fastow would receive fees and a return on his investment. The Board discovered in October 2001 that Fastow made approximately \$30 million from his interest in LJM. Lay said that he was shocked because Fastow was reluctant to create the partnerships and was only spending a few hours a week on LJM related work. These facts neutralized Lay's concerns that Fastow might be making a substantial sum of money.

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Davidow pointed out that when the Board looked at LJM1 it discussed the order of the payments to LJM, while when LJM2 was created there was no discussion of payments. Lay said that he understood that it was a private equity fund on the other side of the wall and it was not his concern how LJM distributed the funds.

There was no discussion at the time about required disclosure of Fastow's interest in LJM. There was also no discussion over prioritizing the disclosure. Lay assumed that this would be disclosed like any other transaction of this nature.

Lay never heard complaints from Enron employees that Fastow was putting pressure on them to negotiate favorably with LJM. He does not recall hearing that Jeff McWhorter complained to Skilling.

Lay never reached out on his own to investigate whether the controls the Board put in place to ensure arm's-length transactions were followed. Enron has a "hands off" management style. If someone identifies a problem, then Lay and people at Enron would investigate and fix the problem. Skilling was responsible for ensuring that the controls were in place. If Skilling found a problem with operations, he would talk to Lay. Also, the Audit and Finance Committees would look over the procedures at the annual meeting where they discuss the year's transactions.

Both Canney and Bay were responsible for making sure that the transactions with LJM1 and LJM2 were fair to the company and at arm's-length. Lay thought it was clear to Canney and Bay that they were supposed to look at the deal and make sure it was fair. They were supposed to look not only to see if there were independent people on each side of the deal, but also at the terms of the deal.

At the end of 1999, there were a series of transactions between Enron and LJM2. Lay did not recall that the transactions done at the end of 1999 were with LJM. It is not unusual for Enron to do a number of transactions at the end of the year.

At the May 1, 2000 Finance Committee meeting there was a presentation that gave six LJM2 updates for the fourth quarter. Lay did not recall or was aware that many transactions worth a substantial amount occurred at the end of 1999, as reflected in the presentation. Enron's total earnings for 1999 were \$400 million, and Lay thought \$225 million was a large portion of the earnings. Lay could not recall any discussion that a significant amount of the income for Enron was from these six transactions.

Lay was unaware of previously-sold assets being bought back by Enron in 2000 and wondered what were the reasons for the buybacks.

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Davidow referred Lay to a transaction that involved selling packaged loans and equity to investors. Bear Stearns marketed the investments. LJM2 bought one of the six most levels of investment, and the other was bought in part by LJM2 and part by TCW. Lay is a member of the

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Board of Directors for TCW. Lay does not recall hearing of the involvement or that TCW was buying the investment with LJM.

Raptor:

Lay became aware of the Raptor transactions either at a Board meeting or at an agenda-review meeting prior to the meeting. He does not know who informed him of or who created the structure. The purpose of the Raptor was to hedge against P&L volatility by moving stock that increased in value into the structure. At the time the structure was presented, he does not recall if the structure was explained, but he thought that probably Skilling and Fastow made the presentation. Lay does not know the level of understanding Skilling had about the Raptor structure.

Davidow asked whose handwriting appears on the May 1, 2000 Finance Committee meeting slides. Lay believed that it was the Corporate Secretary's handwriting, but he was not a handwriting expert. On a slide entitled "Structuring Highlights" a handwritten comment states that the P&L risk is transferred, but the economic risk is not transferred. Lay stated that this was consistent with what he knows.

Another slide labeled "Vehicle Structure Slide" reflects that Raptor only had \$30 million dollars, yet the structure is hedging \$1 billion. Lay said that this was a good question, but he does not recall any discussion about the ability of the structure to effectively hedge. Lay said he vaguely remembers some reference to \$400 million, but could not recall if it was debt or equity.

Davidow said that it seemed odd that Barron purchased a share-certified put on its own stock for \$41 million and placed it in Raptor. Lay did not recall why Barron would buy a put on its own stock. Lay did not recall any conversation about Raptor's ability to pay should the price of Barron stock go down in value.

On one slide discussing Raptor in May 2000, it states that one of the risks of Raptor is accounting scrutiny. Lay does not know why accounting would be a risk. Barron trusted Andersen and Andersen knew about Raptor. He understands that Barron even discussed Raptor with Andersen's Chicago office.

The resolutions state that Gilson is authorized to approve the Raptor transaction. Gilson reported to Fastow. Davidow questioned why the Board appointed someone who worked for Fastow to be involved with the Raptor structure on Barron's behalf. Lay did not recall at the time of the resolutions this problem, but when he refreshed his memory and re-viewed the Board minutes he noticed this issue. If Lay realized Gilson was going to be part of the approval process at the time, he would have known that Gilson reported to Fastow.

Lay was familiar with the name Trustar Fund, but does not recall any discussion about Fund or to whom he reported to at the time.

Lay was not aware of how the total-return swap between LJM and Raptor was priced. He also did not know if the swap took place on the date the documents reflect.

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Raptor II:

Raptor II was authorized in the Executive Committee meeting on June 22, 2000. Lay could not remember why it was approved in the Executive Committee and not taken to the Board.

Raptor III:

Davidow noted that Raptor III was different from the other three Raptors because it was capitalized with The New Power Company (TNPC) stock and not Enron stock. Lay explained that Enron Energy Services pulled out of the residential market and was looking to get into a smaller retail market. The concept behind TNPC was to be the largest participant in the deregulated small retail market. In order to get into the market it formed alliances with utility companies and formed joint ventures to market to customers. In order to get TNPC together Enron approached IBM to obtain the meter billing market, AOL for the Internet market and GE for capital. DLI and other investment banks contributed to risk management and wholesale. Enron wanted to bring in wholesale natural gas. In fall 2000, there were few windows to do the IPO for TNPC. At the time of the IPO it was very successful. TNPC had its own management in offices in White Plains, NY. Enron had a significant interest in TNPC and Enron wanted to get the interest hedged.

Lay did not recall who came up with the idea to hedge TNPC stock. There is no evidence that this was ever taken to the Board for approval. Lay has a vague recollection that Enron found a way to hedge TNPC. He does not recall any particular meeting or anyone associated with the hedging of TNPC.

Lay could not recall why Enron stock was not used in Raptor III. He was not familiar with how TNPC warrants were used in the transaction. Lay did not participate in the roadshow and does not recall hearing anything about the progress of the offering from his position as a director of TNPC.

In response to questions about the details of the Raptor III structure, Lay did not understand the logic of the structure. Lay did not have any reports that indicated that as TNPC stock was going down, Raptor was going underwater. Lay was not aware that in late 2000 the derivatives were in the money for Enron. In late 2000, Skilling would have been responsible for tracking how Raptor was doing and Lay believed that Skilling spent a lot of time with Enron's financials and tracked the performance of the company.

Lay did not become aware of the problems with Raptor until he became CEO again in August 2001.

On February 12, 2001, Conroy made a presentation to the Audit Committee. One of the slides in Conroy's presentation is entitled LJM Investment Activity. Lay did not explicitly recall the presentation, but remembers talking about this in presentations. This was the regular meeting where the Audit Committee would review the LJM structures and Lay recalls going through

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transactions and Causey saying that the transactions were reviewed and at arm's-length. Lay believed that Causey was properly overseeing the process. Lay does not recall Causey saying anything about Raptor or any problems.

Davidow then informed Lay that at the time, two of the Raptor structures owed Enron \$175 million and did not have the capacity to pay. Lay thought that was a significant omission and said he had trusted Causey to bring information like this to the Board.

Lay said that there was no discussion prior to the third quarter of 2001 that the Raptor structures were impaired. Davidow then informed Lay that in the first quarter of 2001 there was a restructuring of Raptor. If the restructuring was not done Enron would have taken a \$350 million hit to its balance sheet in the first quarter. Lay said that he never heard of the restructuring in the first quarter 2001 and would have remembered a discussion of this magnitude.

In Enron's 2000 10-K, Enron stated in its related party discussion it recognized \$500 million of coverage in derivatives. Davidow informed Lay that this refers to the Raptors. Lay stated that he did not recall any discussion or know the size of the coverage that Enron was recognizing in association with the Raptors. Davidow asked Lay if anyone questioned how \$500 million in earnings could be from Raptor when the investment is going down. Lay said that the disclosures were signed off by Anderson and Vinson & Kellogg ("V&K"), so he was confident in the 10-K.

Lay said that if the \$500 million was revenue it would not be significant, but if it dropped to the bottom line then it would be material. He would expect Skilling to notify the Board that a large portion of the bottom line was coming from Raptor. Skilling was CEO in the first quarter 2001 and it was his responsibility to inform the Board.

Lay does not recall being told that there was a restructuring of Raptor at the end of the first quarter. The Board minutes do not reflect that it was notified that Enron shares were transferred to Raptor.

Lay thought at the time of the statement there was a discussion that the write-down linked back to the original Raptor and the reason Enron had to take the hit to the balance sheet was because the price of the Enron stock dropped.

Lay thought another reason for the write-off during the third quarter of 2001 was that Anderson had changed its mind on how to account for a transaction. He knew the write-down had something to do with Raptor, but not that it was undercapitalized. Lay thought that the drop in the Enron price sparked the problem. Lay said in the third quarter there was a lot of discussion on what to do with the problem. There was some discussion about recapitalizing the Raptor, but in the end Lay and Win lay decided that it was best to clean up the balance sheet and get rid of the Raptors.

Jeff Skilling's Resignation as CEO:

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Lay remembers that on a Friday, after returning from a long international trip, he met with Skilling in his office. Lay informed Skilling about his trip to India and Skilling went through his list of things to discuss with Lay. At the end of the discussion, Skilling told Lay that he wanted to resign as CEO. Lay was shocked and asked Skilling why he wanted to resign. Skilling said that he wanted to spend more time with his family. Skilling has teenagers that were approaching college age and there was a family-related issue. Skilling felt that if he did not take some time with his children he would never have the opportunity. Lay pushed him a little more on the reason for his decision and Skilling said that he was under a lot of pressure and felt that Enron's stock price was dropping and he could not do anything about it. Skilling was taking Enron's stock decline personally and could not sleep at night. They spoke for about 20 to 30 minutes about it and Lay asked Skilling to reconsider his decision over the weekend. Over the weekend, Lay spoke with Peg Winkler, one of the members of the Board, about Skilling resigning as CEO. On Monday, Lay spoke with Skilling again and tried to convince him to stay at Enron. Skilling was still adamant that he wanted to resign. During the week, Lay spoke with other members of the Board to prepare them for Skilling's decision. Some of the members of the Board spoke with Skilling and tried to convince him to stay. Skilling remained adamant that he was going to resign.

Lay accepted the position of CEO after Skilling resigned. At the time Skilling decided to resign, Lay had another attractive offer to become involved in another company.

The Board of Directors met on a Monday night for a working dinner and Executive session of the Board. Skilling announced his resignation. He told the Board that he did not want the Board to mention in the press release that he was resigning for family reasons because he did not want his children to feel responsible for his decision to resign as CEO. He also would not let the Board state that he was resigning for health reasons. Skilling was emotional when he told the Board his decision to resign and went to tears a few times while he spoke to the Board. The Board tried again to convince Skilling to stay, but he was still adamant about resigning.

The day after Skilling resigned from the Board, Enron issued a press release saying that Skilling resigned because of personal reasons. The day after the resignation release went out, Skilling granted an interview with the Wall Street Journal. In the interview, Skilling said that one of the reasons he was resigning was because Enron's stock was dropping and he was under a lot of pressure. Lay felt that this undercut the company.

Davidow asked Lay if he thought that Skilling's resignation was connected with the announcement that the stock price of TNPC was dropping. Lay did not think that the two events were related because he believes Skilling told him of the resignation prior to the stock price of TNPC falling. Lay said that he would have to consult his calendar to find the exact date as to which Skilling met with Lay and told him of his intention to resign. Davidow explained that the drop in the TNPC stock contributed to the company being underwater and asked if this could possibly have increased the pressure on Skilling. Lay was surprised that the decline in the value of TNPC stock led to problems with the company.

Greg Whalley, president of Enron, is a smart and perceptive person. Skilling said that Whalley was like a "curry in a suit." He would find problems before everyone else could.

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detect them. Whalley came to Lay and told him about the problems with the Raptors and the possible need to unwind the deals. Lay wanted to make sure that Whalley was not exaggerating the situation. At the end of the third quarter of 2001, a decision had to be made whether to unravel the Raptors or restructure them. The team wanted to get the debt cleared from the balance sheet, even if that meant taking some hits. Lay recalls that both Causy and Pastow were at these meetings and wanted to recapitalize the Raptors.

Sharon Watkins' Letter:

Lay believes that the press may have a misunderstanding about the Watkins letter. When he received the anonymous letter it was only one page and it was not signed. The letter was thoughtfully written and alarming. The six-to-seven-page letter that has been recently referred to as the Watkins letter in the press was apparently an ongoing chronology she kept. Lay said it could not be the original because he received the one-page letter in August and part of the seven-page letter has references to actions taken by the company in October.

When Lay received the letter he sent it to the General Counsel ("GC") and told him to investigate the letter. The GC retained V&E to do an investigation. A few days after the letter was sent, Watkins went to Cindy Olson, Managing Director of Human Resources, and identified herself as the writer of the letter. Watkins expressed her concerns to Olson and Olson told her if she felt that way she should continue. Lay set up a meeting. Watkins called Lay to arrange a meeting and Lay met with Watkins on August 22, 2001. Watkins brought a stack of documents with her when she met with Lay. Lay met with Watkins for approximately one hour. Watkins went through her papers. Her major concern was with Raptors. She explained the transaction and what was wrong with it. Lay asked her if she thought that illegal conduct was taking place. Lay does not recall her answer. Lay also asked her if she shared the letter with anyone outside the company and she replied that she had not. Lay tried to determine what her motive for writing the letter was and he thought that she was honest and did not have ulterior motivations. Lay informed Watkins that an investigation was going to take place.

During the investigation, Lay spoke with Causy regarding the Watkins letter. Lay wanted to keep Watkins' identity quiet. Pastow eventually found out that Watkins wrote the anonymous letter and told Lay that he was concerned that Watkins was causing problems and possibly motivated to get a severance package. Lay thought that Watkins was sincere and credible.

Watkins thought that a different accounting firm and law firm should be sought to conduct the investigation. Lay did not think that outsiders would be able to quickly understand Rayon's business and transactions. Lay believed that V&E and Andersen were capable of doing a thorough review because they already understood Rayon and its practices and would be able to follow Watkins' roadmap.

V&E conducted their investigation using Watkins' letter and consulting with Andersen. They reported to Lay that they could not find any problems with the transactions. Lay told V&E to speak with Watkins about the investigation and see if she had any further insights. V&E spoke with Watkins and, while she was not satisfied with the result, she was pleased that they did

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the investigations. During the third quarter, V&E made an oral report to the Board and then submitted a written report on its findings.

On October 31, 2001, Lay met with Watkins again. Watkins still thought there was a problem at Enron, despite V&E's investigation. Lay spoke with her about her career because she reported to Fastow. During the investigation, Lay asked Olson to take Watkins into her department and do special projects so she would not have to report to Fastow during the investigation. Lay asked her if she wanted to stay at Enron. During the investigation, Watkins was seriously considering a job with Alliant. Watkins said that she wanted to stay at Enron.

Board Discussion of Fastow's Compensation from LJM:

Lay recalls a discussion at the October 2000 Finance Committee meeting concerning a possible investigation into Fastow's compensation from LJM by the Compensation Committee. Lay does not have any knowledge that the investigation ever occurred and he does not know why it did not happen. Usually, the Corporate Secretary would put it on the other committee's agenda and get it up with the committee's chairman.

The Board discovered how much Fastow made from LJM in October 2001 when Fastow told Pat Winkler and John Duncan, members of the Board. As stories were unfolding in the Wall Street Journal and the SEC began its investigation, the Board members became more interested in what Fastow was making. Prior to the stories and the investigation, it was not a pressing issue because Fastow said he was only working about three hours a week on LJM business and the fact that he was reluctant to create the revenue because he was afraid it would impede his Enron career. The Board and Lay trusted him and could not imagine that he was making a substantial sum of money from his LJM involvement. Duncan told Lay how much Fastow made prior to the Board meeting. Lay was shocked because Fastow said he only spent three hours a week on LJM business and created LJM out of an obligation to the company. Fastow made more from his involvement with LJM than he did from his position as CFO of Enron. Lay questioned whether Fastow was living up to his fiduciary duty to Enron.

Gilson's Investment in Partnership:

The day after Fastow was put on administrative leave, Lay attended a briefing session. After the session, Gilson followed Lay back to his office and told him that he had an interest in a limited partnership. Lay told Gilson that as long as the partnership does not transact with the company, there would be no conflict. Lay thought that Gilson made his first big investment and was young and scared because of what he saw happen to Fastow. Gilson never told Lay what partnership he invested in, how much was invested or what profits he made from his investment. Lay thought Gilson was just shaken about what was going on in the company. Gilson did not offer to resign.

Lay did not know of any other employees who invested in transactions with Enron.

September 7-8, 2001 Meeting at Woodlands:

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The Management Committee held a two-day, off-site meeting in the Woodlands. This was the first off-site meeting since Lay became CEO for the second time. Approximately 23-24 people attended the meeting. Lay wanted to get people to talk about what problems they saw at Enron and about their positions. A discussion about transactions evolved from this topic. The operating people felt that they were making money for the company and the finance people were meddling with their progress by using structured vehicles. The discussion lasted approximately one hour. Lay asked how many business people used structured vehicles, and almost everyone had used the vehicles from time to time. They said that so long as the vehicles were valid they made a lot of sense.

There were no formal minutes kept at the meeting, but some people may have kept personal notes.

Analyst Calls:

Davidow asked about an analyst call made on October 23, 2001 where Lay said that the procedures for LJM were followed. Lay based his comments on a discussion with Cussey where Cussey told him all the procedures were followed. Cussey also participated in that analyst call and did not say anything when Lay made that statement.

Lay also said during the analyst call that there was a "Chinese Wall" in place. Lay thought there were independent people from Enron and they were walled off from Fastow and LJM. Lay did not believe that the wall could be penetrated. Now that Lay realizes that Glisan and Patel were involved in the Raptor deals for Enron and reporting to Fastow, he realizes that the wall had holes in it and he would no longer make the statement.

Rules of Enron Stock:

In 2000, Lay sold stock because he had stock options coming due. Lay received a seven-year option for renewing his employment contract. These options were going to expire in January and February of 2001. Approximately 77% of his options were associated with this transaction. Lay thought that in 2000 he exercised and held a couple thousand shares. He deferred and then exercised approximately 500,000 shares. These were cashless exercises.

In 2001, there were a couple exercises and he held about 100,000 shares. All his other options were exercised in 2001 were pursuant to scheduled sells. Lay, and others at Enron like Derrick, have written plans to sell stock. Rick Amery at First Union handles the selling of stock according to the plan for Lay. In hindsight, Lay thought that the plan did a lot of damage because the analysts viewed executives selling their shares as a problem with the company.

The options in 2001 were less than 1% of his total options. Lay wanted to sell the shares because he was planning on leaving Enron.

Enron puts 25% of compensation in salary and cash bonuses and the other 75% is placed in long-term incentives. He wanted to liquidate some of his stock to diversify because he had approximately 75% of his assets in Enron stock plans.

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Lay never had negative information about the company at the time he sold the stock. Even when Enron took the write-off in the third quarter of 2001, Lay thought that the deals were clean and they were going to continue business as normal.

Lay also has a revolving loan with Enron as part of his compensation. He had this loan since the late 1980's and the loan ranges from \$4 million to \$7 million. If he draws on the loan, the company decides whether it is repaid with stock or cash. Lay made some payments for the loan toward the end of 2001.

Other employees that invested in LJM:

Lay was only aware of one other employee that was indirectly invested in LJM. Beth Tilney is a Commercial Officer at Enron and her husband Schuyler Tilney is a partner with Merrill Lynch in its private equity group. Merrill Lynch participated in LJM financing. When Merrill Lynch participates in providing private equity it offers its partners the option to buy into it. Schuyler invested in LJM. Lay views this as a matter involving two different professionals, one at Enron and one at Merrill Lynch and this should not be a problem. Beth never had any dealing with LJM through her work at Enron to the best of Lay's knowledge.

Follow-up:

Dana Powers wanted Lay to clarify how he viewed Causy's role in overseeing the transactions. Lay thought that Causy would do more than just look at who from Enron's business unit was negotiating with LJM. The Board and Lay thought that Causy and Eby would take a more assertive role than that in overseeing the transactions. He thought that Causy would do more than just look at the accounting and then say that the deal was at arm's-length. When Causy made his presentations to the Audit Committee and the Board he believed that Causy was doing more.

Dana Powers asked Lay to look back at the Board Meetings and knowing what he knows now, did it spark any memory about the transactions and the issues raised during the Board meetings that he may have not have understood at the time, but now understands. Lay said that when he heard the word "bridge" he thought it was an effective bridge. He does not recall any discussion that the bridges were backed with Enron stock. He does not recall discussions about transferring economic risk.

Documents:

Lay was asked whether he had any documents in his office that were responsive to the SEC subpoena. Lay said he was sure that the things in his office were not responsive, but he would look.

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Follow-up:

During the interview Lay did not know the exact date Skilling told Lay he wanted to resign. After the interview, Lay's secretary called Davidson and told him that she checked Lay's calendar and Lay believes the date Skilling met with Lay and told him he was going to resign was July 13, 2001.

It is hereby certified that:

FIRST: The name of the limited partnership is LJM2 Capital Management, L.P. (hereinafter called the "Partnership").

SECOND: Pursuant to provisions of Section 17-202, Title 6, Delaware Code, the Certificate of Limited Partnership of the Partnership is hereby amended by striking out Section One thereof and by substituting in lieu of said Section One the following:

1. Name. The name of the limited partnership is "WHITECLIFF CAPITAL MANAGEMENT, L.P."

The undersigned, a general partner of the partnership, executed this Certificate of Amendment on October 19, 2001.

LJM2 CAPITAL MANAGEMENT, LLC

By: 

Name: Michael J. Koppen

Title: Managing Member

LJM060985

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Requested

CERTIFICATE OF AMENDMENT

TO

CERTIFICATE OF FORMATION

OF

LJM2 CAPITAL MANAGEMENT, LLC

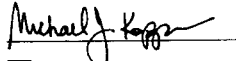
It is hereby certified that:

FIRST: The name of the limited liability company is LJM2 Capital Management, LLC (hereinafter called the "Limited Liability Company").

SECOND: Pursuant to provisions of Section 18-202, Title 6, Delaware Code, the Certificate of Formation of the Limited Liability Company is hereby amended by striking out Section One thereof and by substituting in lieu of said Section One the following:

1. Name. The name of the limited liability company is "WHITECLIFF PARTNERS, LLC."

The undersigned, a managing member of the limited liability company, executed this Certificate of Amendment on October 19, 2001.


Michael J. Kopper

LJM060983

Confidential Treatment
Requested

CERTIFICATE OF AMENDMENT
TO
CERTIFICATE OF LIMITED PARTNERSHIP
OF
LJM 2 CO-INVESTMENT, L.P.

It is hereby certified that:

FIRST: The name of the limited partnership is LJM2 Co-Investment, L.P. (herein called the "Partnership").

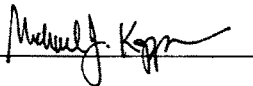
SECOND: Pursuant to provisions of Section 17-202, Title 6, Delaware Code, the Certificate of Limited Partnership of the Partnership is hereby amended by striking out Section One thereof and by substituting in lieu of said Section One the following:

1. Name: The name of the limited partnership is "WHITECLIFF CAPITAL PARTNERS, L.P."

The undersigned, a general partner of the partnership, executed this Certificate of Amendment on October 19, 2001.

LJM2 CAPITAL MANAGEMENT, L.P.

By: LJM2 CAPITAL MANAGEMENT,
LLC

By: 

Name: Michael J. Kopper
Title: Managing Member

LJM060984

Confidential Treatment
Requested

Project Raptor

Project Description:

- Enron made a number of equity investments, principally in The New Power Company and various broadband and technology companies
- Enron wanted to protect its shareholders against volatility in the value of these investments
- The use of a party with knowledgeable industry expertise enabled the quick execution of hedges on Enron investments
- Raptor is designed to mitigate this income statement volatility through derivative hedges





Annual Partnership Meeting
October 26, 2000

LJM Investments

Introduction: Meeting Agenda

- Introduction
- LJM Rationale
- LJM Strategy
- Activity Summary
- Valuation
- Sample Investments
- Other Issues
- Summary
- Guest Speakers: Jeff Skilling, Enron
Gene Lockhart, The New Power Company
Bill Jacobs, The New Power Company
Will Byers, The New Power Company



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Introduction

LJM Investments

Introduction: Meeting Attendees

1.) LJM Investments	3.) LJM2 Limited Partners	4.) Guests
- Andrew Fastow	- Chase Capital	<u>Enron</u>
- Michael Kopper	- World Air Lease	- Jeff Skilling
- Kathy Lynn	- GE Capital	<u>TNPC</u>
- Michael Hinds	- J.P. Morgan Capital	- Gene Lockhart
- Anne Yaeger	- Merrill Lynch	- Bill Jacobs
- Joyce Tang	- C&I Partners	- Will Byers
- Chris Loehr	- Dresdner	
- Ace Roman	- AON	
2.) LJM Consultants	- Rho Management	
<u>Kirkland & Ellis</u>	- CSFB	
- Michael Edsall	- Ulysses Partners	
- Martha Stuart	- Fort Wash. Private Equity	
<u>Price Waterhouse Coopers</u>	- Morgan Stanley	
- Ian Schachter	- First Union Investors	

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LJM Rationale

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LJM Investments

LJM Rationale

- Fund created and managed by the CFO of Enron – Andrew S. Fastow
- Focused on acquiring energy and communications assets primarily owned by Enron

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LJM Rationale: Why does Enron need private equity?

- Energy and communications assets typically do not generate earnings or cash flow within the first 1-3 years
 - Investments are dilutive to Enron's current EPS
 - Investments are dilutive to credit rating ratios
- Solutions
 - Enron must deconsolidate assets
 - Enron must create structures which accelerate projected earnings and cash flows

➤ This leads to opportunities for LJM

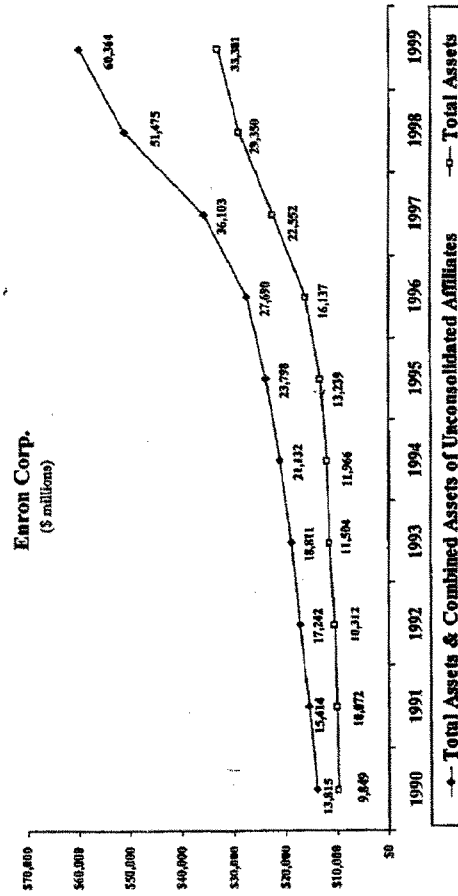
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LJM Rationale: Why does Enron need private equity?



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LJM Rationale: Why does Enron need private equity?

- Additional applications of private equity have been developed
 - Risk management
 - Nature of earnings
 - Earnings generation

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LJM Strategy

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LJM Investments

LJM Strategy: Overview

- Maximize risk-adjusted spread over nominal return
- Provide services in addition to capital
- Create proper incentives for sponsor
- Ensure multiple exits

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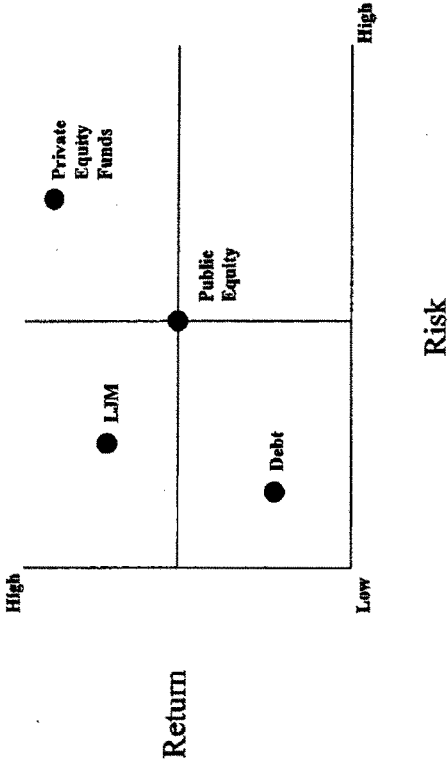
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LJM Strategy: Maximize risk-adjusted spread



LJM Investments

LJM Strategy: Provide services in addition to capital

- LJM offers a different product than traditional equity providers
 - Speed
 - Certainty of execution
 - Structured equity capability
 - Confidentiality
 - Knowledge of company's objectives and reliability
 - Ability to play GP role

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LJM Strategy: Create proper incentives for sponsor

- Sponsor typically retains an ongoing economic interest in investment
- Sponsor typically benefits by assisting LJM in liquidation of investment

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LJM Strategy: Multiple exit routes

- Self – liquidating
- “Effective” put
- Sale
- Securitization

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Activity Summary

LJM2 Co-Investment, L.P.

Activity Summary: Closing

- First close on December 22, 1999
- Final close on April 5, 2000
- Total capital commitments of \$394 million
 - 42% financial institutions and insurance companies (Rated A- or higher)
 - 36% individual investors and private equity funds
 - 22% pension funds

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LJM2 Co-Investment, L.P.

Activity Summary: Overview

- 23 investments have been made
- \$511 million committed to investments / \$438 million invested
- 6 investments liquidated on schedule at target returns (\$108 million)
- 5 investments partially realized (\$123 million)
- \$245 million of Partners' capital has been funded
- \$135 million of debt used for investments
- Projected Net Limited Partner IRR* – 69% Cash multiple – 2.3X

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*See Valuation: Key model assumptions slide

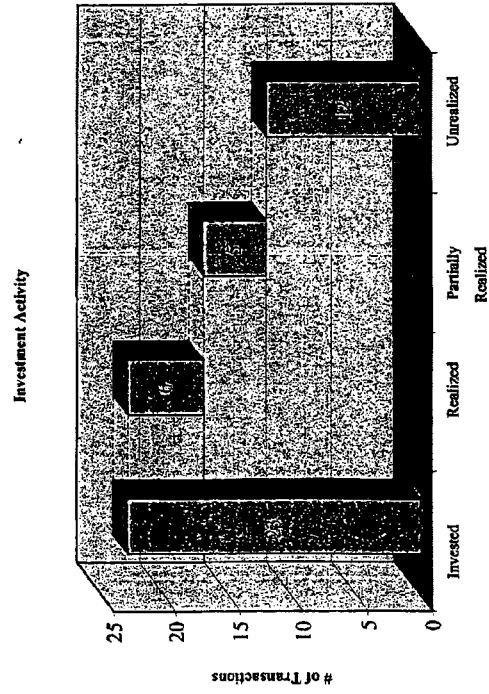
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LJM2 Co-Investment, L.P.

Activity Summary: Investments



LJM2 Co-Investment, L.P.

Activity Summary: Investments

Asset	Investment	Amount	Asset	Cash	Current	Projected
Unrealized Investments	Date	Invested	Outlook	Received	IRR	IRR
Subordinated Debt						
ENX CLO	22-Dec-99	19,600,000	0	-	-100%	14%
Total Debt		19,600,000				
Equity						
Backbone						
ENX CLO Trust I - Equity	30-Jun-00	22,590,763	0	-	-100%	18%
First Union CLO	29-Sep-00	12,800,000	0	-	-100%	23%
Marquis	12-Jul-00	25,200,000	0	-	-100%	24%
Opportunity 2	12-Jul-00	10,000,000	0	-	-100%	16%
Opportunity 1	11-Sep-00	2,000,000	0	-	-100%	21%
Opportunity 3	11-Sep-00	2,000,000	0	-	-100%	23%
Opportunity 4	18-Sep-00	6,000,000	0	-	-100%	12.5%
Raptor I.A.	13-Oct-00	1,100,000	0	-	-100%	12.5%
Raptor IV	21-Sep-00	30,000,000	0	-	-100%	12.5%
Raptor V	64-Sep-00	67,200	0	-	-100%	13%
TRFC	12-Jul-00	24,000,000	0	-	-100%	13%
Zenith	8-Aug-00	21,000,000	0	-	-100%	21%
Total Equity		217,307,933				
Total Invested Investments		236,907,933				
Partially Realized Investments						
GE TEA Turbine	12-May-00	8,226,975	0	846,378	-100%	40%
Raptor	4-May-00	29,500,000	0	40,566,667	156%	193%
Raptor II	6-Jul-00	30,000,000	0	41,050,000	248%	278%
Raptor III	28-Sep-00	30,000,000	0	39,550,000	230%	250%
Rambold	28-Jul-00	12,500,000	0	12,500,000	-100%	18%
Total Partially Realized Investments		110,226,975		102,513,775		
Realized Investments						
Bangco	29-Jun-00	7,215,000	n/a	8,115,000	20%	15%
Debt West Tennessee	29-Dec-99	2,593,125	n/a	3,246,649	21%	11%
Cypress Springs	7-Jul-00	26,313,610	n/a	3,557,000	-	-
Philo	29-Dec-99	36,000,000	n/a	26,394,115	8%	102
Poland	22-Dec-99	31,750,000	n/a	32,641,390	41%	109
Yousunil	28-Feb-00	100,911,735	n/a	33,330,000	194%	1,003
Total Realized		417,724,675		102,513,775		
Total Invested		654,632,608				
Total Portfolio IRR					51%	

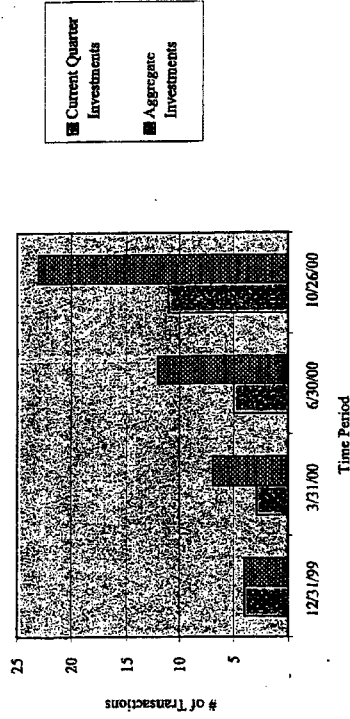
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LJM2 Co-Investment, L.P.

Activity Summary: Investments

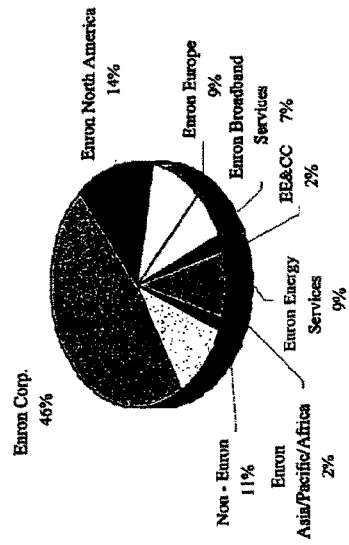
LJM2 Deal Flow



LJM2 Co-Investment, L.P.

Activity Summary: Portfolio

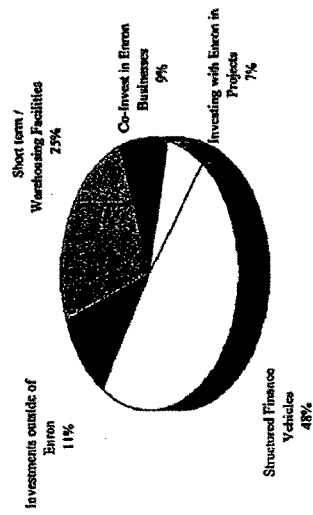
Transaction Counterparty



LJM2 Co-Investment, L.P.

Activity Summary: Portfolio

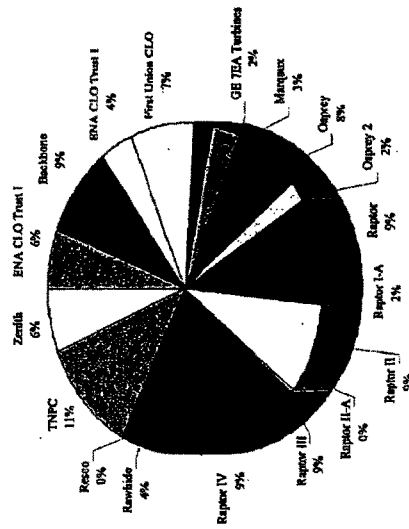
Investment Portfolio (by Type)



LJM2 Co-Investment, L.P.

Activity Summary: Portfolio

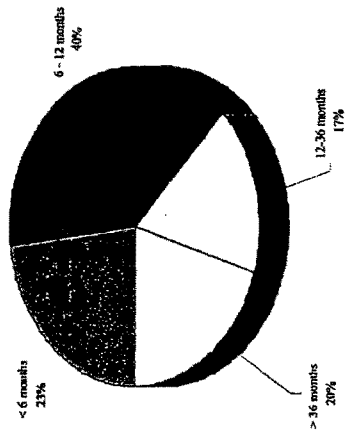
Investment Portfolio (by asset)



LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

Transaction Length



63% of LJM's investments are projected to pay out in less than one year

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LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

	CLO Debt	Backbone	CLO-Eq.	First Union	GE-Turb.	Marquax	Oprey	Oprey 2
12/31/99	(19,688,000)	-	(12,900,000)	-	-	-	-	-
3/31/00	-	(29,990,763)	-	-	(3,006,423)	-	-	-
6/30/00	-	-	-	-	(4,400,475)	(10,800,000)	(24,000,000)	-
9/30/00	-	-	-	-	8,326,975	450,000	1,657,500	(6,500,000)
12/31/00	-	-	-	(25,200,000)	-	-	-	414,375
3/31/01	2,861,466	-	1,296,603	532,832	-	-	-	-
6/30/01	-	35,389,100	1,233,307	1,335,990	-	600,000	1,657,500	-
9/30/01	1,392,580	-	1,260,668	1,381,846	-	-	1,657,500	828,750
12/31/01	-	-	-	1,640,120	-	600,000	-	-
3/31/02	1,392,580	-	2,599,150	1,591,539	-	-	1,657,500	828,750
6/30/02	-	-	-	1,611,779	-	1,066,667	-	-
9/30/02	1,392,580	-	2,254,686	1,633,661	-	-	1,657,500	828,750
12/31/02	-	-	-	1,632,259	-	1,066,667	-	-
3/31/03	1,392,580	-	2,431,131	1,586,804	-	-	33,099,273	16,398,372
6/30/03	-	-	-	1,607,256	-	766,667	-	-
9/30/03	1,392,580	-	2,296,841	1,628,742	-	-	-	-
12/31/03	-	-	-	1,627,715	-	766,667	-	-
3/31/04	1,392,580	-	2,420,769	1,604,704	-	-	-	-
6/30/04	-	-	-	1,604,406	-	766,667	-	-
9/30/04	1,392,580	-	2,011,623	1,626,117	-	-	-	-
12/31/04	-	-	-	1,625,718	-	766,667	-	-
3/31/05	1,392,580	-	1,837,535	1,590,860	-	-	-	-
6/30/05	-	-	-	1,561,573	-	766,667	-	-
9/30/05	1,392,580	-	1,345,985	1,586,127	-	-	-	-
12/31/05	20,767,478	-	19,026,735	24,659,038	-	10,782,456	-	-
Total Profits	16,562,164	5,398,337	27,115,033	28,749,435	920,078	8,399,122	13,729,273	12,798,997
IRR	14%	18%	30%	24%	40%	16%	21%	72%
Cash X*	1.85	1.18	3.10	2.73	1.09	1.84	1.53	2.97

*Equals (profit/invested capital)/invested capital

Bold cash flows have been realized

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LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

	Raptor	Raptor I-A	Raptor II	Raptor II-A	Raptor III	Raptor IV	Rawhide	Resco	TNPIC	Zenith
12/31/99	-	-	-	-	-	-	-	-	-	-
3/31/00	(29,450,000)	-	-	-	-	-	(12,883,717)	(672,390)	-	-
6/30/00	40,316,667	(6,000,000)	(29,950,000)	-	(29,950,000)	(29,950,000)	419,927	-	-	(21,000,000)
9/30/00	-	-	41,000,000	(1,100,000)	39,588,000	-	421,875	-	(38,000,000)	1,700,000
12/31/00	-	-	-	-	-	41,000,000	421,875	-	-	-
3/31/01	-	-	-	-	-	-	421,875	889,098	71,649,000	-
6/30/01	-	-	-	-	-	-	421,875	-	-	-
9/30/01	-	-	-	-	-	-	421,875	-	-	3,400,000
12/31/01	-	-	-	-	-	-	421,875	-	-	-
3/31/02	-	-	-	-	-	-	421,875	-	-	-
6/30/02	-	-	-	-	-	-	421,875	-	-	-
9/30/02	-	-	-	-	-	-	421,875	-	-	3,400,000
12/31/02	-	-	-	-	-	-	421,875	-	-	-
3/31/03	29,500,000	-	30,000,000	-	-	-	14,927,467	-	-	-
6/30/03	-	8,542,969	-	1,550,621	30,000,000	30,000,000	-	-	-	-
9/30/03	-	-	-	-	-	-	-	-	-	3,400,000
12/31/03	-	-	-	-	-	-	-	-	-	-
3/31/04	-	-	-	-	-	-	-	-	-	26,914,286
6/30/04	-	-	-	-	-	-	-	-	-	-
9/30/04	-	-	-	-	-	-	-	-	-	-
12/31/04	-	-	-	-	-	-	-	-	-	-
3/31/05	-	-	-	-	-	-	-	-	-	-
6/30/05	-	-	-	-	-	-	-	-	-	-
9/30/05	-	-	-	-	-	-	-	-	-	-
12/31/05	-	-	-	-	-	-	-	-	-	-
Total Profiles	40,366,667	2,342,969	41,050,000	430,621	39,350,000	41,050,000	6,671,335	215,898	33,649,000	17,314,286
IRR	198%	12%	278%	12%	2503%	125%	18%	25%	115%	21%
Cash X*	2.37	1.42	2.37	1.41	2.32	2.37	1.52	1.32	1.89	1.85

*Equals (profit/invested capital)/invested capital

Bold cash flows have been realized

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LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

	Divested	Burgess	Bob West	Coyote	Pluto	Poland	Yosemite	Total
12/31/99	-	-	(2,553,125)	-	(26,313,610)	(29,250,000)	-	(91,016,735)
3/31/00	-	-	-	-	26,794,115	31,891,502	100,000	45,228,700
6/30/00	-	-	-	-	-	-	-	(44,314,733)
9/30/00	(7,533,000)	3,246,649	-	3,257,000	-	-	-	(108,956,881)
12/31/00	8,205,000	-	-	-	-	-	-	68,100,453
3/31/01	-	-	-	-	-	-	-	48,141,354
6/30/01	-	-	-	-	-	-	-	110,285,064
9/30/01	-	-	-	-	-	-	-	6,943,219
12/31/01	-	-	-	-	-	-	-	6,062,005
3/31/02	-	-	-	-	-	-	-	8,491,214
6/30/02	-	-	-	-	-	-	-	3,100,320
9/30/02	-	-	-	-	-	-	-	8,189,032
12/31/02	-	-	-	-	-	-	-	6,520,801
3/31/03	-	-	-	-	-	-	-	69,835,627
6/30/03	-	-	-	-	-	-	-	61,874,422
9/30/03	-	-	-	-	-	-	-	75,411,753
12/31/03	-	-	-	-	-	-	-	5,794,381
3/31/04	-	-	-	-	-	-	-	5,418,053
6/30/04	-	-	-	-	-	-	-	29,285,358
9/30/04	-	-	-	-	-	-	-	5,030,320
12/31/04	-	-	-	-	-	-	-	2,392,384
3/31/05	-	-	-	-	-	-	-	4,780,975
6/30/05	-	-	-	-	-	-	-	2,328,240
9/30/05	-	-	-	-	-	-	-	4,324,692
12/31/05	-	-	-	-	-	-	-	75,235,727
Total Profits	680,000	293,524	-	3,537,000	480,505	2,641,502	100,000	344,383,767
IRR	29%	21%	-	NF	8%	41%	NF	51%
Cash X*	1.09	1.10	-	NF	1.02	1.09	NF	-

*Equals (profit+invested capital)/invested capital

Bold cash flows have been realized

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LJM2 Co-Investment, L.P.

Activity Summary: LP Capital Calls and Disbursements

	<u>Capital Calls</u>	<u>Distributions</u>
Drawn Capital by Final Close	\$ 19,027,446	
June 26 Capital Call	\$ 92,565,093	
June 29 Capital Call	\$ 72,835,848	
Sept. 19 Capital Call	\$ 37,620,037	
Oct. 11 Capital Call	\$ 21,285,021	
Oct. 26 Drawn Level	\$243,333,445	
Oct. 31 Scheduled Distribution		\$ 97,376,617

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Valuation

LJM2 Co-Investment, L.P.

Valuation: Overview

- Current portfolio of investments projected to yield IRR = 51%
- Leverage at LJM2 projected to increase yield to IRR = 69%
- Projected average life of investments = 2.25 years
- Cash multiple projected = 2.3X

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LJM2 Co-Investment, L.P.

Valuation: Projected Profits

LJM2 Valuations (as of 10/22/00)

	# Transactions	Invested (\$)	Realized Proceeds (\$)	Remaining Value** (\$)	Total Value (\$)	Total Profits (\$)
Realized	6	100,541,715	108,324,264	-	108,324,264	7,782,529
Partially Realized*	5	110,226,975	122,643,775	117,660,042	240,303,817	122,643,775
Unrealized	12	226,963,963	-	441,023,426	441,023,426	214,059,463
Total	23	437,732,653	230,968,039	558,683,468	789,651,507	344,485,767

*Raptor I,II,III, Rawhide, GE/EE&CC Turbines

**Expected Future Cash Flows

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LJM2 Co-Investment, L.P.

Valuation: Key model assumptions

- Key investment assumptions impacting LJM2 projected return:
 - Osprey structure assumes a 15% growth in Enron stock to 1/15/03
 - The model assumes a full recovery of the capital invested in all Raptor structures based on the overcollateralization displayed in Raptor Daily Position Reports
 - TNPC assumes liquidation 6 months after IPO at \$21 per share
- Debt level of \$120 million
- Available debt invested (\$50 million) at expected portfolio return for the length of the commitment period

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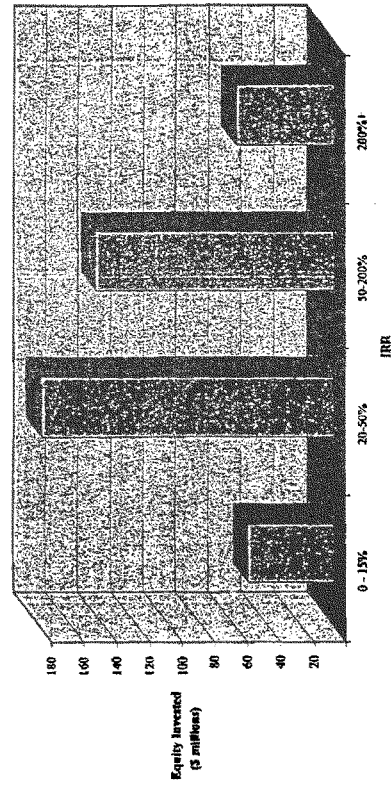
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LJM2 Co-Investment, L.P.

Valuation: Return distribution

LJM Projected Investment Performance



Overall projected asset IRR of 51%

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LJM2 Co-Investment, L.P.

Valuation: Leverage facilities

- LJM2 currently has two credit facilities
 - \$65 million revolver from Chase
 - \$14.1 million from SE Acquisition, L.P. (Enron affiliate)
- The Chase revolver is fully drawn
- All outstanding debt will be repaid by the new \$120 million credit facility expected to close November, 2000
- Assuming the \$120 million credit facility is fully drawn and invested at the current projected IRR, then the projected 51% asset IRR translates into a 69% net IRR to the LPs

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Sample Investments



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LJM2 Co-Investment, L.P.

Sample Investments: Raptor I

- Raptor is a structured finance vehicle, capitalized with an Enron stock derivative and LJM equity, that will enter into derivative transactions with Enron related to investments in Enron's merchant investment portfolio
- Raptor helps Enron manage the impact of the price volatility of its merchant investment portfolio on its income statement
- Major risk to LJM is that Enron stock price drops below \$48.00 per share (43% decline) six months after closing
- LJM's return is projected to be 84%
- LJM used for speed, flexibility, complexity of transaction, and confidentiality

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LJM2 Co-Investment, L.P.

Sample Investments: Osprey

- Osprey is a partner in an investment vehicle that purchases merchant assets from Enron; it is capitalized with 50 million shares of Enron stock + assets + equity, including \$26 million from LJM
- This structure created a synthetic multibillion dollar balance sheet for Enron to deconsolidate assets and to generate funds flow
- Major risk to LJM is a decrease in Enron stock price below \$47.00 per share coupled with a deterioration of asset values to zero
- LJM's return is 12.75% on the certificates with limited upside potential. LJM anticipates securitizing this asset along with similar portfolio assets in order to enhance Partners' returns
- LJM used for structured finance expertise and speed

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LJM2 Co-Investment, L.P.

Sample Investments: Osprey Capitalization

\$ 4.1 billion Enron stock
+ \$ 2.4 billion cash and Enron merchant assets
\$ 6.5 billion total assets
- \$ 2.4 billion debt
\$ 4.1 billion available to cover equity
÷ \$ 220 million of equity
= 19 X coverage

LJM2 Co-Investment, L.P.

Sample Investments: TNPC

- LJM2 (\$38 million), along with co-investors (\$12 million), invested \$50 million for a 3.9% stake in TNPC, the residential energy services business started by Enron
- Enron desired to deconsolidate this business while TNPC gains critical mass
- The primary risk to LJM2 is successful execution of the TNPC business plan and equity market response
- Expected IRR of 133%

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LJM2 Co-Investment, L.P.

Sample Investments: TNPC

\$	10.75	2nd Round Private Placement (LJM's cost basis per share)
\$	21.00	IPO price
\$	28.50	Opening trading price - 10/5/00
\$	19.31	Current Price - 10/24/00
\$	21.00	Expected case in model
133%		IRR at expected case when lock-up expires
1.9X		Cash multiple for expected case when lock-up expires

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Other Issues

Summary

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ESTIMENTS

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LJM2 Co-Investment, L.P.

Summary

- As expected
 - Types of transactions
 - Strategic importance to Enron
 - Velocity (quick conversion to cash)
 - Rates of return
 - Use of leverage
- Not as expected
 - Higher level of deal flow
 - Greater ability to manage risk
 - More “permanent” investments

ENRON CORPORATION
Moderator: Kenneth Lay
10-23-01/8:30 a.m. CT
Confirmation # 627675
Page 1

ENRON CORPORATION

Moderator: Kenneth Lay
October 23, 2001
8:30 a.m. CT

Operator: Good morning, everyone. Welcome to the Enron conference call. This call is being recorded.

At this time, I would like to turn the call over to Chairman and Chief Executive of Officer, Mr.
Kenneth Lay. Please go ahead, sir.

Kenneth Lay: Good morning. This is Ken Lay. Thank you for joining us today.

I have with me in the room here Mark Frevert, the Vice Chairman, Greg Whalley, President and
Chief Operating Officer of Enron; Rick Causey, Executive VP and Chief Accounting Officer; Andy
Fastow, Executive Vice President and Chief Financial Officer; Steve Kean, Executive Vice
President and Chief of Staff; Mark Koenig, of course, Executive Vice President of Investor
Relations; and Ben Glisan, Managing Director and Treasurer.


We decided yesterday to set this call to address questions and concerns raised over the last few
days. To say the least, we are very, even extremely disappointed with our stock price,
particularly since our businesses are performing very well, and we are continuing to conduct
business as usual.


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ENRON CORPORATION
 Moderator: Kenneth Lay
 10-23-01/8:30 a.m. CT
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questions surrounding the equity adjustments since the call. So we want to take the opportunity to clearly spell out the basis of that adjustment.

A structured finance vehicle in which LJM was an investor, was established to mitigate volatility associated with certain of Enron's merchant investments, including investments in the new power company, technology and other investments of Enron. 

In conjunction with the recent termination of these vehicles, Enron recorded a \$1.2 billion reduction in shareholders' equity and a corresponding reduction in notes receivable. 

These adjustments were the result of Enron's termination of obligations to deliver Enron's shares in future periods. Although this obligation equated to 62 million shares, and this was reflected in our fully diluted shares outstanding, the obligation to issue shares in the future no longer exists. And as (such), the shares will no longer be factored into the - our EPS calculation.

The 10-Q will reflect the final, proper reduction of 62 million shares, as calculated, using Enron's actual share prices during the third quarter.

If you have additional questions on these adjustments, I will address them at the end of the call. I now would like to turn the discussion over to our CFO, Andy Fastow, to discuss our current liquidity position and credit rating.

I might add that I and Enron's Board of Directors continue to have the highest faith and confidence in Andy, and believe he is doing an outstanding job as CFO. Andy?

Andrew Fastow: Thank you very much, Ken, and thank you for those last comments. We have, in fact, received questions recently about both our liquidity and the outlook for the Enron Corp. credit. I'd like to briefly address both of these issues now.

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ENRON CORPORATION
Moderator: Kenneth Lay
10-23-01/8:30 a.m. CT
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First, regarding liquidity. Enron expects to continue to have sufficient liquidity to conduct normal operations and to meet all of its projected capital requirements. We have committed credit facilities with domestic and foreign banks, which provide for an aggregate of \$3.35 billion in credit. These bank lines are undrawn, but act as the backstop for the company's issuance of commercial paper. Additionally, the company utilizes on a consistent basis, uncommitted lines in excess of \$500 million.

With respect to commercial paper, currently our commercial paper balance is approximately \$1.65 billion, and that's net after consideration of cash balances on deposit, resulting in approximately \$1.5 billion of liquidity available from committed sources today.

We continue to issue commercial paper, and we have not drawn on our bank revolvers. Additionally, we have not experienced any material increase in our funded CP balances over the past two weeks.

Our policy of maintaining liquidity levels under committed lines of credit that are a multiple of projected cash requirements remains in effect. In addition to the \$1.5 billion in unused commitments, we expect to receive in excess of \$500 million in proceeds from asset sales, and these were discussed in the third quarter conference call.

These proceeds should be realized in the fourth quarter, perhaps as soon as within 30 days. And I would like to remind everyone that we have entered into a definitive agreement to sell Portland General to Northwest Natural Gas for approximately \$1.9 billion, and the assumption of \$1.1 billion in Portland General debt. Subject to normal regulatory review, this transaction is scheduled to close by the end of 2002.

ENRON CORPORATION
Moderator: Kenneth Lay
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Also with respect to liquidity, we have spoken to our key banks, all of our key banks. And based on these conversations, we expect to have their continued support.

Now, turning briefly to the credit ratings, both Standard & Poor's and Fitch have confirmed our triple B plus rating, and have kept us on stable outlook.

We are currently rated B double A one at Moody's. That has not changed. However, Moody's has placed Enron on review, and we're now working with Moody's to address specific questions in order to facilitate their review.

We understand that our credit rating is critical both to the capital markets, as well as to our counter-parties.

Ken? After you.

Kenneth Lay: Great. Thank you, Andy.

As we discussed in the earnings conference call last week, our third quarter recurring operating results were outstanding, with a 26 percent increase in recurring earnings per share, and a 65 percent increase in our physical volumes.

These results reflect the superb performance of our core wholesale, retail and pipeline businesses. We are continuing to stay focused on our businesses, and remain well positioned for continued success.

And with those brief comments, we would welcome your questions. Is the operator there?

Operator: Yes. Are you ready to take questions?

Kenneth Lay: We're ready for questions.

Operator: All right. Thank you. The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star or asterisk key, followed by the digit one on your touch-tone telephone. We will proceed in the order that you signal us. And we'll take as many questions as time permits. Once again, please press star, one, on your touch-tone telephone to ask a question. And we will pause for just a moment.

Kenneth Lay: Operator, you got somebody on? Hello.

Operator: We'll take our first question from Kevin Boone, Bear Stearns.

Kevin Boone: Hi. Can you tell me about the uncommitted bank facilities you have, just in terms of the size and potential maturity dates for those revolvers.

Male: Ben Glisan, please.

Ben Glisan: Certainly. The largest of them is a \$550 million loan sales facility that JP Morgan Chase agents, on our behalf. That is a program that supplements our CP program. And we issue under it actively. In fact, at the moment, I believe we have approximately (\$350).

Kevin Boone: OK. That's the only -- that's the only revolver you have outstanding, other than the ones we use for CP backup?

Ben Glisan: That's the only uncommitted facility we have outstanding debts...

Kevin Boone: OK.

Ben Glisan: ... in addition to the committed facility that Andy spoke to, totaling 3.35 billion

Kevin Boone: But those are -- those are again, for -- primarily for CP backup. Is that right?

Ben Glisan: The \$3.35 billion of revolving credit -- committed revolving credit facilities are composed of three facilities. One is \$1.175 billion 364-day facility, which is due in May of '02. The second is a \$1.25 billion five-year facility due in May of '05. And then, the third is a \$355 million 364-day insurance wrap (A-1 P-1) facility due in March of '02. All of those are committed facilities. None of them have been drawn and serve to back up our CP program.

Kevin Boone: I see. Great. That was the information I needed. Thanks.

Ben Glisan: OK. Yes. I think it's important to note, on those facilities, there is no (max) clause and there's a single financial covenant requiring debt to cap, not to exceed 65 percent, which is very lenient. And we, you know, feel very confident and comfortable in all of the terms and conditions of those facilities.

Operator: Mr. Boone, was there anything further?

Kevin Boone: No. That's it. Thanks.

Operator: Thank you. We'll take our next question from Curt Launer, from CS First Boston.

Curt Launer: Good morning. Curt Launer, from CSFB. I just want to go back and try to recreate some of the accounting that went on during the year 2000 pursuant to what was already disclosed in the footnotes. In other words, had the partnerships not been part of certain of the transactions during

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the year 2000 and, in fact, if we were trying to recreate the income statement, what would have or could have the earnings been in broad terms?

And then, if we could move that question ahead and talk about where we would be in the year 2000 and 2001, knowing that you've talked about \$1.80 into 2001 and \$2.15 in 2002. It looks to me like those would still be the estimates we would use regardless of the impact of the partnerships. But I do want to go back to 2000 first and establish the base relative to the broadband and other entries that the partnership was involved in.

Male: Can we do that? Rick Causey, Chief Accounting Officer.

Rick Causey: Curt, it's Rick Causey. The best guidance I can give you on that is that there are disclosures that show the impacts of the transactions with these (entities), related-party footnotes (for either of) those ((inaudible)) looking backwards. ((inaudible)) forward estimates ((inaudible)) income ((inaudible)).

Male: The \$1.80 for this year and the 2.15 for next year will remain unchanged, unaffected.

Curt Launer: OK. That is the critical issue, obviously. But I did want to go back to 2000 and reference some of the things that have already been disclosed. There's \$35 million relative to (dark) fiber sales and so on and so forth. And to some degree, those transactions could have occurred with or without the partnership. But the fact of the matter is, they did occur with the partnership in place. So if that's the order of magnitude that we're talking about, we know how to adjust for that.

Male: Well, that's correct. Again, what I referred to was, in fact, the revenues associated with the partnerships that were disclosed have always been disclosed as related-party transactions. You are correct in that obviously these actions were done with the partnerships. They could have obviously been done with other entities, as well, (if) that were the case, with the similar results.

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Male: Yes. I think that's the answer, Curt. I mean, I think they were done at the partnerships. But they could have been and would have been done elsewhere. And there would have been no impact on the -- on the earnings.

Curt Launer: OK. Thank you. That is the key question.

Operator: We'll next take a question from Jonathan Reiss, with John Levin & Company. Mr. Reiss?

Female: Operator, let's continue.

Operator: OK. We'll take our next question from David Knott, with Knott Partners.

David Knott: You, when you were at the Lehman Brothers, promised to be more transparent with your financial disclosure. And yet, you just issued a quarterly release and you don't give us a balance sheet. Is there a reason for that?

Male: David, in fact, the balance sheet, it usually doesn't come together until a week or so after the earnings are, in fact, concluded.

David Knott: When will we be provided with one?

Male: Well, we typically provide that at the time of the 10-Q. It will be filed, obviously, by November 14th.

Male: What we have...

David Knott: Are you taking the full time to file it?

Male: That's historically what we've done. We endeavor to file it as soon as possible. Typically, that's been on ((inaudible)).

David Knott: Well, if the balance sheet's available a week after the -- it's put together a week after the earnings, could it not be made available sooner?

Male: David, we will look at that. And, indeed, in future quarters, we may even reschedule the time when our earnings release comes out so, in fact, we can provide both earnings and balance sheet at the same time.

David Knott: Thank you, because it'd be helpful.

Male: Next question.

Operator: We'll next -- take the next question from Raymond Niles, with Salomon Smith Barney.

Raymond Niles: Good morning. One of my questions has been asked already in regard to the earnings. But I wanted just to clarify so I fully understand it with regard to the reduction in shares outstanding and what the opposite entry is that results in no net change in EPS. Maybe you can once again, clarify that, the 62 million shares.

Male: Ray, the -- I'm not sure of your last point about no change ((inaudible)). It is correct that the 62 million shares were -- was the impact on fully diluted shares outstanding in the third quarter. In the fourth quarter, there will be no shares outstanding associated with this (because) obviously, since the transaction is ((inaudible)). Does that answer your question, Ray

Raymond Niles: So shares outstanding is reduced by 62 million shares for purposes of the EPS calculation?

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Male: That is correct. There's -- the number was approximately (912, I believe, million shares) at the third quarter. And you'll see something roughly 60 million short of that. Obviously, there's other things that impact that quarter to quarter. But expect something more in the 850 range.

Raymond Niles: Would there have been any reason to increase earnings guidance on an EPS basis?


Male: Ray, we've not because obviously, you know, we started off the year with guidance of \$1.70 -- \$1.75. We've increased that to \$1.80. But we've held that \$1.80 despite, obviously, the economy going somewhat softer. And we think we can certainly make the \$1.80. But we certainly haven't had an increase ((inaudible)). But we still -- we still have (2.15) for next year, at least -- at least for the time being.

Raymond Niles: OK. Thank you.

Operator: We'll next take a question from Rose Eiland-Smith, with White Asset Management.

Rose Eiland-Smith: Good morning. I have three questions. The first question is about the bank commitment covenant for debt to capital to remain lower than 65 percent. Could you define for us what constitutes debt in that covenant calculation and indicate whether there are any conditions under which the Marlin Water Trust or other off balance sheet financings would be included in that calculation?

Male: They are not. I would hesitate to attempt to define the debt use. You recall, the definition of debt, as I don't have the revolver here with me, but those instruments are not included in that calculation.

Rose Eiland-Smith: OK. So, there would be no, say, rating change triggers or anything that will cause them to become part of that debt calculation? 

Male: That is correct. 

Rose Eiland-Smith: OK, thanks. Second question is about Marlin Water and the other trusts. With near term debt maturities, what is Enron's current plan for paying those maturities in terms of your funding mechanism? Are you focused now on asset sale proceeds, or do you plan to proceed with marketing, convertible preferred held in trust? And the other part to the second question is about the rating agency requirements for retaining or maintaining Enron's current ratings and the impact of the funding mechanisms that you choose for these near term maturities on your ratings?


Male: Certainly. In the case in each of the Asbury transaction and the ((inaudible)) transaction, the intent is to repay those financing through asset dispositions. If in fact we have to supplement the proceeds of asset dispositions with equity proceeds, we would do so.

Andrew Fastow: This is Andy Fastow. Let me add to that, that as mentioned by Ken in the third quarter call and we briefly touched on it here again today, we have, I think, begun in earnest our asset disposition program. You've seen announcements over the course of the last couple of months announcing the sale of agreements -- definitive agreements for the sale of our (Segrio) property in South America, (Echo Electrical), our India E&P properties, as well as Portland General. And so, if you begin to add all of those cash proceeds together, there is a significant amount of cash that to be received by Enron if on closure of these transactions.

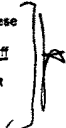
Rose Eiland-Smith: OK. I understand that. And I guess it's in light of having heard about those prior plans that I asked the B part of the question, which relates to the rating implications of using asset sale proceeds to make these payments, given that the trust structures were originally


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contemplated to be off balance sheet in order to help preserve Enron's rating on the premise that Enron wouldn't need to support these debt maturity repayments by selling their own assets. 

Male: Well, I have two comments to that. One, over the life of these trust structures, Enron has in fact issued sizable amount of equity, principally through its deferred compensation. So, from that perspective equity has been issued over the life, and that was expected by the agency. Secondly, certainly we believe that we will dispose over time the assets held by the trusts. We have discussed with the agency that it may well be that we dispose not only of assets of the trust but additional assets as well. And the agencies have taken those comments into consideration in there.

Rose Eiland-Smith: What assurance do you have that if you do use asset sale proceeds to pay off these near term maturities that the agencies won't change their leverage calculation to put all your off balance sheet debt on balance sheet based on this demonstrated support of off balance sheet financing that occurs with the repayment of near term maturity for asset sale proceeds? 

Male: Again, we have fully discussed these mechanics multiple times with the agencies and remain confident and comfortable with the mechanic as described. 

Rose Eiland-Smith: OK. Thanks. My last question is about CP finance findings and cost trends. Can you just comment on how recent CP issuance costs compare to, say, year over year costs or whatever in terms of giving us an idea of how much those costs may have increased?

Male: Sure. As you know, the base rate has declined substantially. So, the (all in) rate is very inexpensive on historical terms. The spread is wide by historical standards, but not unreasonably so. Yesterday's cost and placement of CP was approximately three percent annualized. It pushed CP out into November.

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Rose Eiland-Smith: And how does that spread compare, say, year over year or...

Male: The spread in that market is quite volatile. So, at times the spread could be as tight as 10 to 15 basis points to LIBOR and, at times, as wide as 50 or more. So, by historical standards, it's wide, but not unprecedently so, especially when there are disruption in the CP market and multiple users in the (H&P) market special.

Rose Eiland-Smith: OK. So, it's on a 50 or more end of that spectrum right now?

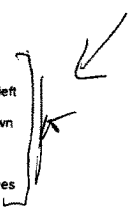
Male: Yes.

Rose Eiland-Smith: OK, thank you.

Operator: We'll next hear from Richard Grubman with Highfield Capital.

Richard Grubman: Yes. Hi. Good morning. To follow up on the last questioner's inquiry, the assets that you announced for sale, such as Portland General, are not assets of Marlin or Osprey. And I guess in light of the \$3.35 billion of capacity you outlined against which \$1.850 of CP is already drawn, Marlin - my question is about reserves with respect to Marlin.

Marlin's got roughly \$1 billion of financing outstanding due in the next 18 months or so. All the proceeds from Marlin's debt issue were basically paid to repay the loan to Enron Water, which left Marlin with a third of Azurix, which based on the math you gave us on the write down of your own shares of Azurix last week is worth about \$100 million. So, it would appear that the support of your imminence remain in that case to the tune of almost \$1 billion. Have you taken any reserves against that liability?



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Rick Causey: This is Rick Causey. The point I would make is that the Marlin Trust structure has assets in it, as you said of Zurich's - obviously Azurix - I'm not sure of the math you've done to come up with that calculation. The point I would make is that Azurix continues to owner of Wessex Water, which is a very successful utility with a lot of value, obviously located (in).

Richard Grubman: Well, again, you valued Azurix at about \$900 million when you bought the third in at eight and three-eighths a share. And you own two thirds and the Water Trust owns half and Marlin owns - I don't know if it's two thirds, but Marlin owns half of that. So, that's a third. So, if - so, Marlin's stake is 300 on the original 900 and then you wrote your 600 down 287 after tax, or roughly 400 pretax. You wrote it down by two thirds. So, rough numbers, the 300 at Marlin becomes 100 and there are no other assets other than the block of Azurix.

And Azurix, as you say, owns Wessex. Azurix also has close to \$2 billion of its own debt. So, if the piece is worth the same amount in both pockets, am I pressing, I guess, those stands? It looks to me like you have close to \$1 billion liability that is going to be supported exclusively by Enron's support agreement. And I'm curious why to the last question at this point there have been no reserves or no inclusion of that liability in the overall liabilities of the company.

Male: I think the only clarification that might help you, Richard, is that the - what loss we recorded in the third quarter associated with our portion of a Azurix's impairment of certain assets on their book, not a write down of our investment at (Azurix's pull). So, we pick up our equity interest, their income or loss. If it's a loss, we associate it with the write down of certain assets that are now being held for sale by Azurix.

Those assets were written down to net realizable value, basically market value ((inaudible)) that they're being held for sale. We picked up our share of that loss as would be required under equity accounting. The remaining assets Azurix principally Wessex was considering both

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Azurix's overall position and any other additional impairments that need to be made and ours.
We're comfortable with where we stand on it.

Richard Grubman: So, in the best case, the asset's worth \$300 million, in which case the deficiency is \$700 million. What's...

Male: I would point out obviously that you can't -- you're mixing historical cost accounting and market value, assets that have value in excess of what they may be on the books that are not written up.

Richard Grubman: OK. So, please tell us what the \$1 billion worth of assets at Martin is.

Male: It's the Azurix and Wessex Water.

Male: It's mainly Wessex Water, Richard. And...

Richard Grubman: But the Wessex is owned by Azurix.

Male: Correct.

Richard Grubman: So, you can't count them both. If the Wessex is owned by Azurix, what's the Azurix worth including Wessex?

Male: Again, the charge taken in the third quarter reflects to -- relates to reflecting all assets held for sale by Azurix to market value, and we picked up our share of that.

Richard Grubman: Fine. Let's go back to the transaction where you bought a third of Azurix for roughly...

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Kenneth Lay: Richard, let me intercede here for a minute. Wessex Water is the asset remaining in Azurix. That's 99 -- or 90-something percent of it. And, in fact, even over the last month or six weeks our outside auditors have reviewed Wessex and in fact have determined that there is no impairment required. Now, I know you want to drive the stock price down, and you've done a good job at doing that, but I think that's that. Let's move onto the next question.

Richard Grubman: That's pointless.

Kenneth Lay: Let's go to the next question, Richard. You're monopolizing the conference. We've got a lot of people out there with real serious questions.

Richard Grubman: In difference, I would appreciate an answer to the question. That's fine if you move on. I think everybody understands why. Thanks.

Male: I think in fact we've answered the question, but you won't accept our answer. Let's move on.

Operator: Next we'll hear from Howard Kaminsky with King Street Capital.

Howard Kaminsky: Hi. I certainly don't want to beat a dead horse. What I would like to know is there are a number of off balance sheet financing -- Martin, Osprey. And it's very confusing to me to try to understand what the true potential dilution might be to the extent that there was a trigger event. Now, I'm not suggesting that there will be one, but I'm just trying to gauge how much potential dilution there might be to the shareholders to the extent that you were downgraded to below investment grade. That's...

Male: Well, I will start off with that. First of all, we'd have to be downgraded three notches to go below investment grade. And there's -- at least we don't think there's any chance of that. But, Dan or Andy, you want to add?

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Male: That's fine, thanks. I think that says it all.

Male: And, indeed, I will reemphasize, since I'm on the phone, that we are committed to maintaining our rate. We've said that repeatedly. We're working - obviously, with two of the three rating agencies have already confirmed our ratings. Certainly, Moody's - we're working with Moody's. Moody's says they want to work with us. And we are committed to maintaining our ratings.

Rick Causey: I guess - this is Rick Causey. Just another comment on those as it relates to both of those entities you referred to. They are, again, a traditional asset ownership structure with underlying debt on their books. Obviously, in the event of any event, the assets are the primary source of repayment of all the obligations of those entities. And to the extent that those assets were to be sold or something, that would be the primary source of repayment of any debt or equity associated with these entities.

Our - the double triggers that have been referred - or at that point, any shortfall then would be - would default to Enron and again be repaid with proceeds from whatever source we deemed appropriate to fund those proceeds. But to answer your question is a difficult one because it would require us to assume that (all of these) were wound out today and exactly what proceeds. Again, we feel like that the overall structures are appropriate and that the assets can be used to support the underlying.

Male: And to Ken's point, our rating is strong and we will in fact defend it.

Howard Kaminsky: I understand. Could you just tell me what was the whole purpose behind the Osprey transaction? 

Ben Glisan: I could speak to that. In...

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Kenneth Lay: And this is Ben Glisan, the Treasurer.

Ben Glisan: In '97 and '98 Enron invested in a number of different areas simultaneously and we were expanding a couple of our different larger businesses. That was creating balance sheet expansion. And there was as fundamental capital structure ((inaudible)), which was to either expand the balance sheet permanently at that point or ultimately be deployed capital from other sources to accommodate that incremental investment. These structures accommodated that latter decision. That is precisely what occurred. So, these structures provided Enron a period of time over which it could sell either the assets in the structure or raise other capital, thus that it would not have to permanently expand the balance sheet at the time the other investments ((inaudible)).

Kenneth Lay: And I will underscore again that the assets in these instruments are, for the most part, traditional energy assets – power plants, gas distribution businesses and so forth. And again, as Rick said, we think the value of the assets fully support these instruments.

Howard Kaminsky: Well, the asset – Osprey is collateralized by the limited partnership investment. I take it the real assets are held at Wingate.

Ben Glisan: Yes. The partnership that Osprey invests in a partnership called White Wing.

Howard Kaminsky: White Wing, I'm sorry.

Ben Glisan: And White Wing has two classes of assets. One class, as Ken mentioned, are traditional energy investments that are held globally, so some European power stations, Central American, Latin American energy equity investments and so forth, as well as Enron stock. That – a convertible preferred.

Howard Kaminsky: Right. Just the marketable preferred.

Ben Glisan: Correct.

Howard Kaminsky: I just want to reiterate that to the extent that when these securities mature in '03, if there is a deficiency, that Enron will meet that deficiency with either proceeds from asset sales or equity contribution.

Ben Glisan: Yes.

Howard Kaminsky: Thank you very much.

Kenneth Lay: And again, we think the proceeds will be -- based on current valuations, we think the proceeds will be adequate to cover that.

Next question, please.

Operator: We'll next hear from Dan Nordby with Alliance Capital.

Dan Nordby: Good morning, Ken. A couple of questions. Let me take a stab at a worst-case scenario here. And I'd appreciate you telling me where my thinking is off. On this junior convert preferred, the \$1 billion roughly, if by some calamity the (make hold) provisions got triggered by the stock price and downgrades and assuming you couldn't raise a penny in assets, which of course is not true, with the stock down here in the low 20s, presumably you'd have to issue about 50 million shares of stock to make that whole, which would be about eight percent dilution. Is that a worst-case scenario here on this?

★

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Kenneth Lay: Actually, for the Osprey transaction, which is the transaction you're describing, in your math, which I agree is the absolute worst case, the total proceeds that would need to be raised is not \$1 billion but rather \$4 billion. But that's why we continue to say that asset dispositions will make up the largest component of those proceeds. And, in fact, as Andy mentioned, we're well on our way facing those proceeds.

Dan Nordby: So, that implies that to the extent you couldn't under a worst worst-case get anything for the assets, there'd be something on the order of, what, 15 to 18 percent dilution or more?

Maie: You'll have to trust your math. I don't have my calculator in front of me, but that sounds correct. But remember, there are assets in White Wing that we would be selling. So, you're assuming that there's \$2.4 billion of assets in White Wing itself that we couldn't sell at all, we couldn't -- that are worth zero, which seems to be an awful harsh assessment.

And furthermore, there's a large portfolio of assets on our balance sheet that we are also looking to dispose as well. And you're assuming that we could not dispose of any of those, which is extraordinarily harsh given that outline close to \$4 billion now of eight disposition transactions.

Kenneth Lay: And again, of course, as we said, these are traditional energy assets. But in some of those power plant assets, they have long-term contracts with like A rated or AA rated utilities that in fact justify the value that we're putting them at. So, it's not a matter that all of a sudden they just collapse to zero.

Dan Nordby: Right. Yes. I understand that. I'm just kind of trying to test this for a worst-case exposure here.

I guess the second question is a little more qualitative. And that is that despite your comments at the beginning about the faith that the board has in the CFO function here, there do seem to be

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legitimate questions that can and should be raised about how significant cash flow and capital has been allocated in some of these manners over the last couple years. And I certainly wouldn't expect you to comment on conflicts of interest because there probably are legalities. But what things have been put into place to make sure that this doesn't get unfocused and undisciplined going forward?

Kenneth Lay: Let me first say from the standpoint of LJM and Andy's role in that, obviously the board and of course even the lawyers and the auditors and everybody else recognize that there would be an inherent conflict of interest there. And basically, the board developed and prescribed certain procedures and how in fact that could – that in fact would be dealt with and primarily in a way that Enron's interest and Enron's shareholder's interest would never be compromised.

And I will also say that having checked just in the last several days those procedures have been very rigorously followed. So, we do not – we're very concerned the way Andy's character has been kind of loosely thrown about over the last few days in certain articles as well as, of course, the integrity of the company. But we think in fact that all of the necessary protections and procedures were put in place on the front end to make sure that Enron shareholders were in fact fully protected.

And I guess as a question going forward, certainly just in this environment, if nothing else, I think everybody's becoming more disciplined in capital decisions. And certainly we've had this discussion with our team. And think surely probably most companies wouldn't make as large investments in many areas as they did one or two years ago, and that's certainly true with Enron. We're very much in a very disciplined mode, at the same time making sure that our key executives and our core businesses – our wholesale, retail and pipeline businesses – know that they've got good projects or need for capital we're going to provide it for them.

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Dan Nordby: I appreciate this. I appreciate your willingness to have this call and, for what it's worth, urge you to continue to have them if confusion persists going forward.

Kenneth Lay: I appreciate that. And I think I did comment at the start that we do intend to do this on a more regular basis here for a while because we do want to try to make sure that the facts get out. We know there are a lot of rumors getting out, lot of speculation getting out, and obviously it's done a lot of damage to us over the last few days. But we're trying our best to get the facts out.

Dan Nordby: Thanks.

Operator: We'll next hear from David Fleischer from Goldman Sachs.

David Fleischer: Hello, Ken.

Kenneth Lay: Hi, David.

David Fleischer: This was going to start out as a question if I had been called earlier, but I think several of them that I was going to ask most about have been asked. I guess what I'd like to do is make this partly a question, but more of a comment and just point out, with all due respect, that what you're hearing from some of these people and many others that you haven't heard from in this call is that the company's credibility is being severely questioned and that there really is a need for much more disclosure. And I appreciate where it's real difficult for you to get into a lot of details on one specific issue with one questioner, but that's exactly what I think needs to happen over maybe a series of conference calls.

There is an appearance that you're hiding something or that you just don't want to -- that maybe there's something beneath the surface going on that is less than -- that may be questionable. I guess you need to do everything in your power to explain to investors, to demonstrate to

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investors that your dealings are above board, that the impacts and potential impacts are not negative for Enron, that everyone isn't questioning all these. And so, I would urge you to have daily conference calls or almost daily conference calls to try to explain this with outside auditors to -- with whoever to really through these because I think it's absolutely critical to the company that you do that. The disclosure in the footnotes that -- one of the questions that Rick said the disclosure is there in the footnotes.

I, for one, find the disclosure is not complete enough for me to understand and explain all the intricacies of those transactions. And that's why there are so many questions here. And I think you're now in a position where you really need to give us a lot more information, notwithstanding the fact that you probably want to place limits on that.

But that would be my comment to you.

Kenneth Lay: Well, David, I appreciate that. And certainly, as I also said earlier there are limitations on what we can or should talk about with LJM in particular or related party transactions in general because of both lawsuits, potential lawsuits as well as the SEC inquiry. But again, as you know we are trying to be as transparent as we can. We're trying to provide information. We're not trying to conceal anything. We're not hiding anything.

Probably we scrubbed and rescrubbed and rescrubbed things more in the last couple months than we have in a long, long time. And as you know, in the second quarter -- well, first of all, third quarter results told you and everybody else that we're going to provide (lease) allocation of capital numbers from the capital deployed numbers for all of those different segments at year end so you can really begin tracking the returns on investment in different segments. And indeed, I'm very sorry about the misunderstanding to the extent there was a misunderstanding on the \$1.2 billion equity reduction.

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That -- it was deemed that that was not necessary to put in the earnings release or, for that matter, even put out publicly until the 10-Q, but we made the decision to put it out at the same time of the earnings. And my conference call comments is to get everything out there, as we did some other things in those comments. We're really trying to make sure that the analysts and the shareholders and the debt holders really know what's going on here. So, we are not trying to hold anything back.

David Fleischer: OK, thank you. I do think we need a lot more here. Thank you.

Operator: We will next hear from (Dusty Turk) with Simmons.

(Dusty Turk): With Simmons. I applaud your move towards more financial disclosure as well. One of the things that came out in the financial disclosure was the global assets portfolio, which is a \$6 billion portfolio with only about \$12 million of EBIT year to date. Could you talk about how you look at asset write downs in this portfolio and what you intend to do to improve the earnings in the portfolio and give some specifics if you can by some of the assets in the portfolio?

Kenneth Lay: Well, number one, and again, as we said in the third quarter earnings call, we -- in fact, both we and our outside auditors had already looked at all of our assets to determine if we had impairments under the new goodwill accounting rules that take effect first quarter next year. And as you probably recall, out of that review, indeed there was somewhat less than \$200 million of adjustments that will be required in the first quarter out of our whole portfolio. And clearly, if there are impairments other than that, why then of course Arthur Andersen as well as our internal accounting staff would require that we write that down also.

Now, as to those assets and earnings so little, and I agree with that, I've now put the operation of those assets under Stan Horton's group. Stan Horton's been running our pipeline group and our utility group in North America for quite some time. We think he's one of the best in the world

running those kind of assets and businesses and getting the most return out of them. I think, number one, he will find, and he already has as a matter of fact, just going through the budget reviews and everything he's done over the last two months finding ways to improve earnings from that group of assets. But secondly, as you well know, a lot of those assets are targeted for disposition. And, of course, at least (Sigrio), which is a gas distribution business in Brazil, we sold that to Petrobras and that should close, as Andy said, over the next 30 days. We're making progress on a number of other assets. So, we hope both to increase returns and cash flows from this group of assets at the same time that we reduce the total dollars invested.

(Dusty Turk): Are you looking at any additional capital investment in that portfolio?

Kenneth Lay: It will be modest. Obviously, you'll continue to do what's necessary to maintain reliability and safety. And there may be a few incremental investments that will in fact enhance earnings from assets we already own. But as we've said for some time, we are de-emphasizing our investments in large infrastructure projects in developing countries, and that's what most of those are.

(Dusty Turk): Very good. Thank you.

Kenneth Lay: Thank you.

Operator: We'll next hear from John Olson with Sanders, Morris & Harris.

John Olson: Good morning, gentlemen.

Kenneth Lay: Good morning, John.

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John Olson: I think it would be important in terms of credibility to restore it a little bit if you would be so kind as to have Andy Fastow describe the role he played as a general partner in LJM-1 and LJM-2 and how closely monitored he was and how – what kind of review was imposed on the general partner role.

Kenneth Lay: I think, John, and particularly with the SEC deciding that they're going to come in and look at this, which as I said we welcome because this will finally hopefully put all of these issues to rest. But I think because of that I would prefer that Andy not get in too much detail as far as LJM. And let me say there was a Chinese law between LJM and Enron.

And what I did say earlier was that we – that the board put in place and the company adhered to some very strict procedures, which would ensure that any time anybody inside of Enron was dealing with LJM there would be a process whereby in its shareholder's interest would be paramount. And keep in mind that we did not have to put any projects or investments in LJM or any of the other vehicles related to LJM. So, it's strictly discretionary. And obviously it had to be in Enron's best interest before those investments or projects were put in there.

John Olson: I – the "Wall Street Journal" makes a circumstantial case on a number of points. It might be helpful if you would be able to put out something just answering them on a point-by-point issue at some point yourselves.

Second question, if I may, is the \$1.2 billion of equity that was basically created through a synthetic transaction why did Arthur Andersen have you put it on the books? Was this really equity or was it something else, a piece of paper?

Kenneth Lay: Rick?

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Andrew Fastow: It did relate to a contingent – it was (four) equity commitments and, in fact, equity and contingent share commitments. And those were recorded and, again, obviously included in the earnings per share calculation until such time that those were terminated.

John Olson: OK. Third question, it might be helpful, too, gentlemen, if you would make available the financial statements of the various partnerships. I don't think that it's any sweat off your backs in terms of disclosure or whatever. But if you would be able to make available White Wing and Atlantic and LJM-1 and 2, I think you would also go a long way towards settling any real or imagined issues here.

Final question, if I may, what is the maintenance capital spending of the company now?

Andrew Fastow: The maintenance capital for the balance of the year is approximately \$175 million.

John Olson: And is – can I annualize that to \$1.1 billion or \$1.2 billion or whatever?

Andrew Fastow: I think that's dangerous. I guess I would prefer to address it again in a follow-up call because I did not – I don't have that number at my fingertips and we typically – it's straight annualizations. It doesn't necessarily (hold).

John Olson: Thank...

Kenneth Lay: But we will provide that, John. We'll be happy to provide that. And also, we certainly will look at providing the financial statements on these other structures.

John Olson: Thank you very much.

Kenneth Lay: I think we're going to have to stop there, operator. And if I could just kind of wrap it up.

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As we said in the release yesterday, we are continuing to be focused on our core businesses and delivering value to our customers around the world. But we also want to take the time we need to keep all of you informed. We will set up another call in the next couple of weeks, maybe sooner depending on events. Additionally, we will be posting on our Web site frequently asked questions and answers in order to get information out to you quickly starting late this afternoon.

So, again, thanks for participating in this call and thanks for the questions.

Operator: That concludes today's conference. Thank you for your participation.

END

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Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
Pai, Lou L. Chairman & CEO	Sold	01/08/1999	\$31.020	49,850	\$1,591,212
	Sold	04/19/1999	\$34.720	640	\$22,221
	Sold	01/21/2000	\$72.080	6,400	\$461,312
Enron Excelsior	Sold	01/21/2000	\$72.080	82,060	\$5,914,885
	Sold	01/21/2000	\$72.080	18,900	\$1,362,312
	Sold	01/21/2000	\$72.080	160,170	\$10,824,254
	Sold	01/21/2000	\$72.080	42,470	\$3,061,238
	Sold	02/25/2000	\$65.040	5,200	\$338,208
	Sold	02/25/2000	\$85.040	4,800	\$312,192
	Sold	03/07/2000	\$72.020	100,000	\$7,202,000
	Sold	03/22/2000	\$74.570	1,243,212	\$92,708,319
	Sold	03/22/2000	\$74.570	461,468	\$34,411,669
	Sold	03/22/2000	\$74.570	65,820	\$4,162,497
	Sold	03/23/2000	\$73.740	298,400	\$22,004,016
	Sold	04/20/2000	\$71.500	36,400	\$2,602,600
	Sold	04/25/2000	\$72.310	473,600	\$34,246,016
	Sold	04/26/2000	\$74.000	20,000	\$1,480,000
	Sold	05/02/2000	\$76.000	70,000	\$5,320,000
	Sold	05/04/2000	\$75.000	100,000	\$7,500,000
	Sold	05/10/2000	\$74.630	300,000	\$22,389,000
	Sold	05/11/2000	\$77.740	100,000	\$7,774,000
	Sold	05/15/2000	\$77.760	15,868	\$1,233,896
	Sold	05/15/2000	\$77.760	84,132	\$6,542,104
	Sold	05/16/2000	\$78.170	88,080	\$5,163,129
	Sold	05/16/2000	\$77.830	100,000	\$7,783,000
	Sold	05/17/2000	\$78.080	200,000	\$15,616,000
	Sold	05/17/2000	\$77.710	33,950	\$2,638,255
	Sold	05/18/2001	\$54.140	300,000	\$16,242,000
	Sold	05/23/2001	\$55.710	90,000	\$5,013,900
	Sold	05/24/2001	\$54.030	160,000	\$8,644,800
	Sold	05/25/2001	\$53.110	101,472	\$5,389,178
	Sold	05/25/2001	\$53.110	198,528	\$10,543,822
	Sold	06/06/2001	\$52.300	32,811	\$1,716,015
	Sold	06/06/2001	\$52.280	22,818	\$1,182,925
	Sold	06/07/2001	\$50.520	6,086	\$307,465
				5,031,105	\$353,712,438
Lay, Kenneth L. Chairman of the Board	Sold	02/22/1999	\$31.770	100,000	\$3,177,000
	Sold	02/23/1999	\$32.460	100,000	\$3,246,000
	Sold	04/20/1999	\$33.690	100,000	\$3,369,000
	Sold	04/29/1999	\$36.640	100,000	\$3,664,000
	Sold	05/10/1999	\$37.480	50,000	\$1,874,000
	Sold	07/21/1999	\$42.600	110,770	\$4,718,802
	Sold	07/21/1999	\$42.625	50,000	\$2,131,250
	Sold	09/03/1999	\$40.190	148,991	\$5,987,948

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	04/20/2000	\$70.810	35,000	\$2,478,350
	Sold	04/26/2000	\$73.060	85,800	\$6,341,608
	Sold	05/04/2000	\$74.720	154,300	\$11,529,296
	Sold	05/04/2000	\$74.660	50,000	\$3,733,000
	Sold	05/08/2000	\$75.700	22,500	\$1,703,250
	Sold	08/24/2000	\$85.750	25,000	\$2,143,750
	Sold	08/24/2000	\$86.360	50,000	\$4,318,000
	Sold	11/01/2000	\$83.130	3,534	\$293,781
	Sold	11/01/2000	\$83.190	500	\$41,595
	Sold	11/02/2000	\$83.560	500	\$41,780
	Sold	11/02/2000	\$83.520	3,534	\$295,160
	Sold	11/03/2000	\$81.000	500	\$40,500
	Sold	11/03/2000	\$81.000	3,534	\$286,254
	Sold	11/06/2000	\$78.250	3,534	\$276,536
	Sold	11/06/2000	\$78.370	500	\$39,185
	Sold	11/08/2000	\$82.750	3,534	\$292,439
	Sold	11/08/2000	\$82.970	500	\$41,486
	Sold	11/09/2000	\$82.970	3,534	\$293,216
	Sold	11/10/2000	\$82.750	500	\$41,375
	Sold	11/13/2000	\$78.250	500	\$39,125
	Sold	11/14/2000	\$80.000	3,534	\$282,720
	Sold	11/15/2000	\$79.940	500	\$39,970
	Sold	11/15/2000	\$79.940	3,534	\$282,508
	Sold	11/16/2000	\$81.630	3,534	\$288,480
	Sold	11/16/2000	\$81.630	500	\$40,815
	Sold	11/17/2000	\$80.470	500	\$40,235
	Sold	11/17/2000	\$80.560	3,534	\$284,899
	Sold	11/20/2000	\$81.370	3,534	\$287,562
	Sold	11/20/2000	\$81.370	500	\$40,885
	Sold	11/21/2000	\$80.750	3,534	\$285,371
	Sold	11/21/2000	\$80.750	500	\$40,375
	Sold	11/22/2000	\$78.630	500	\$39,315
	Sold	11/22/2000	\$78.630	3,534	\$277,678
	Sold	11/24/2000	\$77.590	3,534	\$274,203
	Sold	11/24/2000	\$77.620	500	\$38,810
	Sold	11/27/2000	\$79.310	3,534	\$280,282
	Sold	11/27/2000	\$79.340	500	\$39,670
	Sold	11/28/2000	\$79.000	3,534	\$279,186
	Sold	11/28/2000	\$79.000	500	\$39,500
	Sold	11/29/2000	\$77.410	3,534	\$273,567
	Sold	11/29/2000	\$77.410	500	\$38,705
	Sold	11/30/2000	\$70.970	3,534	\$250,808
	Sold	11/30/2000	\$71.000	500	\$35,500
	Sold	12/01/2000	\$67.190	500	\$33,595
	Sold	12/01/2000	\$67.220	3,534	\$237,555
	Sold	12/04/2000	\$67.250	3,534	\$237,862
	Sold	12/05/2000	\$67.250	500	\$33,625
	Sold	12/06/2000	\$68.690	3,534	\$242,750

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	12/06/2000	\$68.690	500	\$34,345
	Sold	12/07/2000	\$72.780	500	\$36,390
	Sold	12/07/2000	\$72.780	3,534	\$257,205
	Sold	12/08/2000	\$71.000	3,534	\$250,914
	Sold	12/11/2000	\$74.500	500	\$37,250
	Sold	12/11/2000	\$74.500	3,534	\$263,263
	Sold	12/12/2000	\$76.030	500	\$38,015
	Sold	12/12/2000	\$76.030	3,534	\$268,660
	Sold	12/13/2000	\$77.130	500	\$38,565
	Sold	12/13/2000	\$77.130	3,534	\$272,577
	Sold	12/14/2000	\$76.500	500	\$38,250
	Sold	12/14/2000	\$75.000	3,534	\$265,050
	Sold	12/14/2000	\$75.000	500	\$37,500
	Sold	12/15/2000	\$77.250	3,534	\$273,002
	Sold	12/15/2000	\$77.280	500	\$38,940
	Sold	12/18/2000	\$78.500	3,534	\$277,419
	Sold	12/18/2000	\$78.500	500	\$39,250
	Sold	12/19/2000	\$79.750	500	\$39,875
	Sold	12/19/2000	\$80.030	500	\$40,015
	Sold	12/21/2000	\$79.030	3,534	\$279,282
	Sold	12/21/2000	\$79.030	500	\$39,515
	Sold	12/22/2000	\$81.190	500	\$40,595
	Sold	12/22/2000	\$79.470	500	\$39,735
	Sold	12/22/2000	\$79.470	3,534	\$280,847
	Sold	12/26/2000	\$82.380	500	\$41,190
	Sold	12/26/2000	\$82.380	3,534	\$291,131
	Sold	12/27/2000	\$83.000	3,534	\$293,322
	Sold	12/27/2000	\$83.000	500	\$41,500
	Sold	12/28/2000	\$85.940	3,534	\$303,712
	Sold	12/28/2000	\$82.940	500	\$41,470
	Sold	12/29/2000	\$84.060	3,534	\$297,068
	Sold	12/29/2000	\$84.060	500	\$42,030
	Sold	01/03/2001	\$77.940	3,534	\$275,440
	Sold	01/03/2001	\$77.940	500	\$38,970
	Sold	01/04/2001	\$72.250	500	\$36,125
	Sold	01/04/2001	\$72.250	3,534	\$255,332
	Sold	01/05/2001	\$72.190	500	\$36,095
	Sold	01/05/2001	\$72.190	3,534	\$255,119
	Sold	01/08/2001	\$71.530	500	\$35,765
	Sold	01/08/2001	\$71.660	3,534	\$253,246
	Sold	01/09/2001	\$70.530	500	\$35,265
	Sold	01/09/2001	\$70.630	3,534	\$249,606
	Sold	01/10/2001	\$68.750	500	\$34,375
	Sold	01/11/2001	\$69.090	500	\$34,545
	Sold	01/11/2001	\$69.090	3,534	\$244,164
	Sold	01/12/2001	\$69.500	500	\$34,750
	Sold	01/12/2001	\$69.500	3,534	\$245,613
	Sold	01/16/2001	\$69.260	500	\$34,640

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	01/16/2001	\$68.280	3,534	\$241,302
	Sold	01/17/2001	\$68.750	3,534	\$242,963
	Sold	01/18/2001	\$71.560	500	\$35,780
	Sold	01/18/2001	\$71.580	3,534	\$252,893
	Sold	01/19/2001	\$70.240	2,020	\$141,885
	Sold	01/19/2001	\$71.060	1,514	\$107,585
	Sold	01/22/2001	\$73.380	500	\$36,690
	Sold	01/22/2001	\$73.380	3,534	\$259,325
	Sold	01/23/2001	\$77.160	3,534	\$272,683
	Sold	01/24/2001	\$80.250	3,534	\$283,504
	Sold	01/24/2001	\$80.250	500	\$40,125
	Sold	01/25/2001	\$80.410	3,534	\$284,189
	Sold	01/25/2001	\$80.410	500	\$40,205
	Sold	01/26/2001	\$82.000	3,534	\$289,788
	Sold	01/30/2001	\$79.980	3,534	\$282,649
	Sold	01/30/2001	\$80.000	500	\$40,000
	Sold	01/31/2001	\$79.880	500	\$39,940
	Sold	01/31/2001	\$79.880	3,534	\$282,296
	Sold	02/01/2001	\$78.830	2,500	\$197,075
	Sold	02/01/2001	\$79.060	500	\$39,530
	Sold	02/02/2001	\$78.770	2,500	\$196,925
	Sold	02/02/2001	\$78.770	500	\$39,385
	Sold	02/05/2001	\$80.490	500	\$40,245
	Sold	02/05/2001	\$80.490	2,500	\$201,225
	Sold	02/06/2001	\$80.810	2,500	\$202,025
	Sold	02/06/2001	\$80.780	500	\$40,390
	Sold	02/07/2001	\$80.400	500	\$40,200
	Sold	02/07/2001	\$80.000	40	\$3,200
	Sold	02/07/2001	\$80.380	24,690	\$1,984,829
	Sold	02/08/2001	\$80.380	2,500	\$200,950
	Sold	02/08/2001	\$80.380	500	\$40,190
	Sold	02/09/2001	\$80.690	500	\$40,345
	Sold	02/09/2001	\$80.770	2,500	\$201,925
	Sold	02/12/2001	\$79.980	2,500	\$199,950
	Sold	02/12/2001	\$79.980	500	\$39,990
	Sold	02/13/2001	\$79.760	500	\$39,880
	Sold	02/13/2001	\$79.860	2,500	\$199,900
	Sold	02/14/2001	\$80.720	500	\$40,360
	Sold	02/14/2001	\$80.720	2,500	\$201,800
	Sold	02/15/2001	\$77.600	2,500	\$194,000
	Sold	02/16/2001	\$76.360	500	\$38,180
	Sold	02/16/2001	\$76.360	2,500	\$190,900
	Sold	02/20/2001	\$76.280	2,500	\$190,700
	Sold	02/20/2001	\$76.280	500	\$38,140
	Sold	02/21/2001	\$74.930	500	\$37,465
	Sold	02/21/2001	\$74.850	2,500	\$187,125
	Sold	02/22/2001	\$72.570	500	\$36,285
	Sold	02/22/2001	\$72.580	2,500	\$181,450

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	02/23/2001	\$71.060	2,500	\$177,650
	Sold	02/23/2001	\$71.080	500	\$35,540
	Sold	02/26/2001	\$70.370	500	\$35,185
	Sold	02/26/2001	\$70.370	2,500	\$175,925
	Sold	02/27/2001	\$70.360	500	\$35,180
	Sold	02/27/2001	\$70.360	2,500	\$175,900
	Sold	02/28/2001	\$69.500	2,500	\$173,750
	Sold	03/01/2001	\$67.780	2,500	\$169,450
	Sold	03/01/2001	\$67.780	500	\$33,890
	Sold	03/02/2001	\$68.990	500	\$34,495
	Sold	03/02/2001	\$69.000	2,500	\$172,500
	Sold	03/05/2001	\$70.480	2,500	\$176,200
	Sold	03/05/2001	\$70.480	500	\$35,240
	Sold	03/08/2001	\$69.860	500	\$34,930
	Sold	03/06/2001	\$69.880	2,500	\$174,650
	Sold	03/07/2001	\$69.300	2,500	\$173,250
	Sold	03/07/2001	\$69.300	500	\$34,650
	Sold	03/08/2001	\$70.400	2,500	\$176,000
	Sold	03/08/2001	\$70.400	500	\$35,200
	Sold	03/09/2001	\$69.650	2,500	\$174,125
	Sold	03/09/2001	\$69.870	500	\$34,935
	Sold	03/12/2001	\$64.920	500	\$32,460
	Sold	03/12/2001	\$64.920	2,500	\$162,300
	Sold	03/13/2001	\$61.750	2,500	\$154,375
	Sold	03/13/2001	\$61.750	500	\$30,875
	Sold	03/14/2001	\$61.430	2,500	\$153,575
	Sold	03/14/2001	\$61.430	500	\$30,715
	Sold	03/15/2001	\$64.830	2,500	\$161,575
	Sold	03/16/2001	\$65.500	2,500	\$163,750
	Sold	03/16/2001	\$65.500	500	\$32,750
	Sold	03/19/2001	\$62.270	2,500	\$155,675
	Sold	03/19/2001	\$62.290	500	\$31,145
	Sold	03/20/2001	\$62.300	500	\$31,150
	Sold	03/20/2001	\$62.280	2,500	\$155,700
	Sold	03/21/2001	\$59.570	2,500	\$148,925
	Sold	03/21/2001	\$59.660	500	\$29,830
	Sold	03/22/2001	\$53.930	2,500	\$134,825
	Sold	03/23/2001	\$57.720	2,500	\$144,300
	Sold	03/26/2001	\$61.320	2,500	\$153,300
	Sold	03/27/2001	\$60.510	500	\$30,255
	Sold	03/27/2001	\$60.500	2,500	\$151,250
	Sold	03/28/2001	\$58.870	500	\$29,435
	Sold	03/28/2001	\$58.830	2,500	\$147,075
	Sold	03/29/2001	\$56.800	2,500	\$142,000
	Sold	03/29/2001	\$56.800	900	\$51,120
	Sold	03/30/2001	\$56.620	2,500	\$141,550
	Sold	03/30/2001	\$59.000	500	\$29,500
	Sold	04/02/2001	\$57.500	500	\$28,750

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	04/02/2001	\$57.500	2,500	\$143,750
	Sold	04/03/2001	\$55.900	2,500	\$139,750
	Sold	04/04/2001	\$54.110	2,500	\$135,275
	Sold	04/04/2001	\$54.050	500	\$27,025
	Sold	04/05/2001	\$54.880	2,500	\$137,200
	Sold	04/06/2001	\$54.750	2,500	\$136,875
	Sold	04/09/2001	\$54.530	2,500	\$136,325
	Sold	04/09/2001	\$54.520	500	\$27,260
	Sold	04/10/2001	\$57.200	492	\$28,142
	Sold	04/10/2001	\$58.310	2,008	\$117,086
	Sold	04/11/2001	\$59.700	500	\$29,850
	Sold	04/11/2001	\$59.690	2,500	\$149,225
	Sold	04/12/2001	\$57.400	2,500	\$143,500
	Sold	04/16/2001	\$58.240	2,500	\$145,600
	Sold	04/17/2001	\$60.750	2,500	\$151,875
	Sold	04/18/2001	\$61.570	2,500	\$153,925
	Sold	04/18/2001	\$61.640	500	\$30,820
	Sold	04/19/2001	\$61.320	500	\$30,660
	Sold	04/20/2001	\$60.830	500	\$30,415
	Sold	04/20/2001	\$60.870	2,500	\$152,175
	Sold	04/23/2001	\$60.940	2,500	\$152,350
	Sold	04/24/2001	\$62.180	2,500	\$155,450
	Sold	04/25/2001	\$62.040	500	\$31,020
	Sold	04/25/2001	\$62.060	2,500	\$155,150
	Sold	04/26/2001	\$63.210	2,500	\$158,025
	Sold	04/27/2001	\$62.980	2,500	\$157,450
	Sold	04/30/2001	\$63.110	500	\$31,555
	Sold	04/30/2001	\$63.350	2,500	\$158,375
	Sold	05/01/2001	\$63.120	2,500	\$157,800
	Sold	05/01/2001	\$63.070	1,000	\$63,070
	Sold	05/02/2001	\$61.770	2,500	\$154,425
	Sold	05/02/2001	\$61.780	1,000	\$61,780
	Sold	05/03/2001	\$58.730	1,000	\$58,730
	Sold	05/03/2001	\$58.790	2,500	\$146,975
	Sold	05/04/2001	\$58.860	2,500	\$147,150
	Sold	05/04/2001	\$58.860	1,000	\$58,860
	Sold	05/07/2001	\$58.670	1,000	\$58,670
	Sold	05/07/2001	\$58.670	2,500	\$146,675
	Sold	05/07/2001	\$58.680	1,000	\$58,680
	Sold	05/08/2001	\$57.000	2,500	\$142,500
	Sold	05/08/2001	\$57.000	1,000	\$57,000
	Sold	05/09/2001	\$57.130	1,000	\$57,130
	Sold	05/09/2001	\$57.210	2,500	\$143,025
	Sold	05/10/2001	\$58.350	1,000	\$58,350
	Sold	05/10/2001	\$58.350	2,500	\$145,875
	Sold	05/11/2001	\$57.530	1,000	\$57,530
	Sold	05/11/2001	\$57.540	2,500	\$143,850
	Sold	05/14/2001	\$58.550	1,000	\$58,550

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	05/14/2001	\$58.520	2,500	\$146,300
	Sold	05/15/2001	\$58.080	2,500	\$145,200
	Sold	05/15/2001	\$58.080	1,000	\$58,080
	Sold	05/16/2001	\$57.250	2,500	\$143,125
	Sold	05/16/2001	\$57.250	1,000	\$57,250
	Sold	05/17/2001	\$55.020	2,500	\$137,550
	Sold	05/17/2001	\$55.050	1,000	\$55,050
	Sold	05/18/2001	\$53.750	1,000	\$53,750
	Sold	05/18/2001	\$53.750	2,500	\$134,375
	Sold	05/21/2001	\$55.160	2,500	\$137,900
	Sold	05/21/2001	\$55.160	1,000	\$55,160
	Sold	05/22/2001	\$55.060	2,500	\$137,650
	Sold	05/22/2001	\$55.060	1,000	\$55,060
	Sold	05/23/2001	\$55.680	2,500	\$139,200
	Sold	05/23/2001	\$55.670	1,000	\$55,670
	Sold	05/24/2001	\$55.110	1,000	\$55,110
	Sold	05/24/2001	\$55.110	2,500	\$137,775
	Sold	05/25/2001	\$53.810	2,500	\$134,525
	Sold	05/25/2001	\$53.810	1,000	\$53,810
	Sold	05/29/2001	\$53.410	2,500	\$133,525
	Sold	05/29/2001	\$53.410	1,000	\$53,410
	Sold	05/30/2001	\$52.950	2,500	\$132,375
	Sold	05/30/2001	\$52.950	1,000	\$52,950
	Sold	05/31/2001	\$53.030	2,500	\$132,575
	Sold	05/31/2001	\$53.030	1,000	\$53,030
	Sold	06/01/2001	\$52.660	2,500	\$131,650
	Sold	06/01/2001	\$52.660	1,000	\$52,660
	Sold	06/04/2001	\$53.860	2,500	\$134,700
	Sold	06/04/2001	\$53.860	1,000	\$53,860
	Sold	06/05/2001	\$54.080	1,000	\$54,080
	Sold	06/05/2001	\$54.080	2,500	\$135,200
	Sold	06/06/2001	\$52.790	2,500	\$131,975
	Sold	06/06/2001	\$52.790	1,000	\$52,790
	Sold	06/07/2001	\$50.630	1,000	\$50,630
	Sold	06/08/2001	\$50.190	1,000	\$50,190
	Sold	06/08/2001	\$50.200	2,500	\$125,500
	Sold	06/11/2001	\$51.170	1,000	\$51,170
	Sold	06/11/2001	\$51.170	2,500	\$127,925
	Sold	06/12/2001	\$50.920	2,500	\$127,300
	Sold	06/12/2001	\$50.910	1,000	\$50,910
	Sold	06/13/2001	\$50.640	1,000	\$50,640
	Sold	06/13/2001	\$50.630	2,500	\$126,575
	Sold	06/14/2001	\$48.830	2,500	\$122,075
	Sold	06/14/2001	\$48.830	1,000	\$48,830
	Sold	06/15/2001	\$47.800	1,000	\$47,800
	Sold	06/15/2001	\$47.780	2,500	\$119,450
	Sold	06/18/2001	\$46.000	2,500	\$115,000
	Sold	06/19/2001	\$46.000	1,000	\$46,000

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	06/19/2001	\$44.930	1,000	\$44,930
	Sold	06/19/2001	\$44.930	2,500	\$112,325
	Sold	06/20/2001	\$46.110	1,000	\$46,110
	Sold	06/20/2001	\$46.110	2,500	\$115,275
	Sold	06/21/2001	\$45.150	1,000	\$45,150
	Sold	06/21/2001	\$45.150	2,500	\$112,875
	Sold	06/22/2001	\$44.220	1,000	\$44,220
	Sold	06/22/2001	\$44.210	2,500	\$110,525
	Sold	06/25/2001	\$44.790	2,500	\$111,975
	Sold	06/25/2001	\$44.780	1,000	\$44,780
	Sold	06/26/2001	\$43.650	1,000	\$43,650
	Sold	06/26/2001	\$43.660	2,500	\$109,150
	Sold	06/27/2001	\$45.450	2,500	\$113,625
	Sold	06/27/2001	\$45.450	1,000	\$45,450
	Sold	06/28/2001	\$47.470	2,500	\$118,675
	Sold	06/28/2001	\$47.470	1,000	\$47,470
	Sold	06/29/2001	\$49.250	2,500	\$123,125
	Sold	06/29/2001	\$49.250	1,000	\$49,250
	Sold	07/02/2001	\$48.810	2,500	\$122,025
	Sold	07/02/2001	\$48.800	1,000	\$48,800
	Sold	07/03/2001	\$48.800	2,500	\$122,000
	Sold	07/05/2001	\$49.660	2,500	\$124,150
	Sold	07/05/2001	\$49.660	1,000	\$49,660
	Sold	07/06/2001	\$50.060	2,500	\$125,150
	Sold	07/06/2001	\$50.060	1,000	\$50,060
	Sold	07/09/2001	\$49.400	1,000	\$49,400
	Sold	07/09/2001	\$49.400	2,500	\$123,500
	Sold	07/10/2001	\$49.410	1,000	\$49,410
	Sold	07/10/2001	\$49.440	2,500	\$123,600
	Sold	07/11/2001	\$49.000	1,000	\$49,000
	Sold	07/11/2001	\$49.000	2,500	\$122,500
	Sold	07/12/2001	\$49.540	2,500	\$123,850
	Sold	07/12/2001	\$49.540	1,000	\$49,540
	Sold	07/13/2001	\$49.480	1,000	\$49,480
	Sold	07/13/2001	\$49.480	2,500	\$123,700
	Sold	07/16/2001	\$49.500	2,500	\$123,750
	Sold	07/16/2001	\$49.500	1,000	\$49,500
	Sold	07/17/2001	\$49.640	2,500	\$124,100
	Sold	07/17/2001	\$49.640	1,000	\$49,640
	Sold	07/18/2001	\$49.390	1,000	\$49,390
	Sold	07/19/2001	\$48.910	1,000	\$48,910
	Sold	07/19/2001	\$48.910	2,500	\$122,275
	Sold	07/20/2001	\$48.660	1,000	\$48,660
	Sold	07/20/2001	\$48.660	2,500	\$121,650
	Sold	07/23/2001	\$47.480	1,000	\$47,480
	Sold	07/23/2001	\$47.490	2,500	\$118,725
	Sold	07/24/2001	\$44.760	2,500	\$111,900
	Sold	07/24/2001	\$44.760	1,000	\$44,760

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	07/25/2001	\$43.830	2,500	\$109,575
	Sold	07/25/2001	\$43.870	1,000	\$43,870
	Sold	07/26/2001	\$45.310	1,000	\$45,310
	Sold	07/26/2001	\$45.350	2,500	\$113,375
	Sold	07/27/2001	\$46.050	2,500	\$115,125
	Sold	07/27/2001	\$46.040	1,000	\$46,040
	Sold	07/30/2001	\$46.250	2,500	\$115,625
	Sold	07/30/2001	\$46.250	1,000	\$46,250
	Sold	07/31/2001	\$45.980	2,500	\$114,950
	Sold	07/31/2001	\$45.980	1,000	\$45,980
				1,810,793	2101,346,951
Mark-Jusbasche, Rebecca P. Director	Sold	02/23/1999	\$32.500	144,000	\$4,680,000
	Sold	02/23/1999	\$32.500	62,500	\$2,031,250
	Sold	02/23/1999	\$65.000	3,223	\$209,485
	Sold	02/23/1999	\$32.530	41,400	\$1,346,742
	Sold	02/23/1999	\$65.150	70,000	\$4,560,500
	Sold	03/22/1999	\$68.820	139,928	\$9,629,707
	Sold	03/22/1999	\$68.000	31,250	\$2,125,000
	Sold	03/23/1999	\$68.240	62,201	\$4,244,596
	Sold	03/23/1999	\$67.880	37,769	\$2,565,796
	Sold	03/25/1999	\$68.000	33,334	\$2,268,712
	Sold	04/01/1999	\$31.870	28,000	\$892,620
	Sold	04/01/1999	\$31.900	2,016	\$64,310
	Sold	05/26/1999	\$35.870	233,334	\$8,328,024
	Sold	02/18/2000	\$68.910	62,500	\$4,308,875
	Sold	02/18/2000	\$68.910	6,446	\$444,194
	Sold	02/18/2000	\$68.910	68,668	\$4,693,954
	Sold	02/18/2000	\$68.910	24,071	\$1,658,733
	Sold	02/18/2000	\$68.910	259,392	\$17,874,703
	Sold	05/03/2000	\$74.590	104,204	\$7,772,576
				1,410,262	\$79,526,787
Hamison, Kenny L. Director	Sold	02/24/1999	\$33.960	54,000	\$1,833,840
	Sold	04/30/1999	\$37.500	100,000	\$3,750,000
	Sold	05/02/2000	\$74.070	58,500	\$4,184,955
	Sold	05/02/2000	\$74.070	14,860	\$1,100,680
	Sold	05/02/2000	\$76.070	10,170	\$773,632
	Sold	05/02/2000	\$76.070	189,830	\$14,440,368
	Sold	05/02/2000	\$74.070	28,640	\$2,121,365
	Sold	05/11/2000	\$78.000	50,170	\$3,913,260
	Sold	05/12/2000	\$78.000	15,000	\$1,170,000
	Sold	05/15/2000	\$78.130	20,000	\$1,562,600
	Sold	05/16/2000	\$78.170	65,000	\$5,081,050

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	08/28/2000	\$86.990	32,000	\$2,774,080
	Sold	08/29/2000	\$87.200	68,000	\$5,929,600
	Sold	08/29/2000	\$86.880	30,740	\$2,670,691
	Sold	08/29/2000	\$86.880	29,280	\$2,542,109
	Sold	09/01/2000	\$86.910	40,000	\$3,476,400
	Sold	09/18/2000	\$89.430	100,000	\$8,943,000
	Sold	09/18/2000	\$89.440	33,410	\$2,988,190
	Sold	09/18/2000	\$89.440	66,590	\$5,955,810
				1,004,170	\$75,211,630

Rice, Kenneth D.	Sold	01/07/1999	\$30.830	52,380	\$1,614,875
President & CEO	Sold	11/09/1999	\$39.080	27,140	\$1,060,631
Enron Broadband Services, Inc.	Sold	02/17/2000	\$70.390	63,600	\$4,476,804
	Sold	02/17/2000	\$70.390	14,722	\$1,038,282
	Sold	02/17/2000	\$70.390	38,560	\$2,714,238
	Sold	02/17/2000	\$70.390	1,600	\$112,624
	Sold	04/19/2000	\$70.490	100,000	\$7,049,000
	Sold	08/29/2000	\$86.850	50,000	\$4,342,500
	Sold	08/29/2000	\$86.850	13,920	\$1,208,952
	Sold	08/29/2000	\$86.850	60,182	\$5,226,807
	Sold	12/13/2000	\$76.890	70,000	\$5,382,300
	Sold	12/13/2000	\$76.890	30,000	\$2,300,700
	Sold	01/03/2001	\$77.000	1,000	\$77,000
	Sold	01/03/2001	\$76.000	1,000	\$76,000
	Sold	01/03/2001	\$77.820	1,000	\$77,820
	Sold	01/04/2001	\$71.130	500	\$35,565
	Sold	01/04/2001	\$73.630	500	\$36,815
	Sold	01/05/2001	\$72.880	500	\$36,440
	Sold	01/05/2001	\$71.830	500	\$35,915
	Sold	01/06/2001	\$71.370	500	\$35,685
	Sold	01/06/2001	\$71.690	500	\$35,845
	Sold	01/09/2001	\$72.120	500	\$36,060
	Sold	01/10/2001	\$68.880	500	\$34,440
	Sold	01/11/2001	\$69.060	500	\$34,530
	Sold	01/12/2001	\$67.810	500	\$33,905
	Sold	01/16/2001	\$68.190	500	\$34,095
	Sold	01/17/2001	\$89.250	500	\$34,625
	Sold	01/18/2001	\$72.000	500	\$36,000
	Sold	01/19/2001	\$70.880	500	\$35,440
	Sold	01/22/2001	\$73.500	500	\$36,750
	Sold	01/22/2001	\$73.250	500	\$36,625
	Sold	01/23/2001	\$78.560	500	\$39,280
	Sold	01/23/2001	\$77.080	1,500	\$115,620
	Sold	01/23/2001	\$77.560	500	\$38,780
	Sold	01/24/2001	\$80.500	2,000	\$161,000
	Sold	01/24/2001	\$79.440	500	\$39,720

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	01/25/2001	\$80.880	500	\$40,440
	Sold	01/26/2001	\$82.000	500	\$41,000
	Sold	01/26/2001	\$81.310	2,000	\$162,620
	Sold	01/29/2001	\$80.320	500	\$40,160
	Sold	01/29/2001	\$81.030	2,000	\$162,060
	Sold	01/30/2001	\$79.500	500	\$39,750
	Sold	01/30/2001	\$80.480	2,000	\$160,960
	Sold	02/01/2001	\$78.650	500	\$39,325
	Sold	02/01/2001	\$77.750	1,500	\$116,625
	Sold	02/02/2001	\$79.550	500	\$39,775
	Sold	02/06/2001	\$81.000	2,000	\$162,000
	Sold	02/07/2001	\$80.000	2,000	\$160,000
	Sold	02/07/2001	\$80.730	500	\$40,365
	Sold	02/08/2001	\$80.680	2,500	\$201,700
	Sold	02/09/2001	\$80.500	500	\$40,250
	Sold	02/09/2001	\$80.800	2,000	\$161,600
	Sold	02/12/2001	\$80.300	500	\$40,150
	Sold	02/13/2001	\$80.280	500	\$40,140
	Sold	02/14/2001	\$80.550	2,000	\$161,100
	Sold	02/14/2001	\$80.050	138,300	\$10,910,815
	Sold	02/14/2001	\$81.200	2,000	\$162,400
	Sold	02/15/2001	\$76.000	500	\$38,000
	Sold	02/15/2001	\$76.510	1,500	\$114,765
	Sold	02/15/2001	\$78.600	1,500	\$114,900
	Sold	02/16/2001	\$78.000	1,500	\$117,000
	Sold	02/16/2001	\$77.000	1,500	\$115,500
	Sold	02/16/2001	\$75.910	500	\$37,955
	Sold	02/20/2001	\$75.850	1,500	\$113,775
	Sold	02/20/2001	\$76.040	1,500	\$114,060
	Sold	02/20/2001	\$75.830	500	\$37,915
	Sold	02/21/2001	\$75.390	1,500	\$113,085
	Sold	02/21/2001	\$74.750	500	\$37,375
	Sold	02/21/2001	\$75.000	1,500	\$112,500
	Sold	02/22/2001	\$72.650	500	\$36,325
	Sold	02/23/2001	\$71.500	500	\$35,750
	Sold	02/23/2001	\$70.340	500	\$35,170
	Sold	02/26/2001	\$70.570	1,000	\$70,570
	Sold	02/27/2001	\$70.340	1,000	\$70,340
	Sold	02/28/2001	\$69.150	500	\$34,575
	Sold	03/01/2001	\$68.000	500	\$34,000
	Sold	03/02/2001	\$69.510	500	\$34,755
	Sold	03/05/2001	\$70.900	500	\$35,450
	Sold	03/05/2001	\$70.010	500	\$35,005
	Sold	03/06/2001	\$70.430	500	\$35,215
	Sold	03/06/2001	\$69.140	500	\$34,570
	Sold	03/07/2001	\$70.000	500	\$35,000
	Sold	03/07/2001	\$69.580	500	\$34,790
	Sold	03/08/2001	\$70.250	500	\$35,125

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	03/08/2001	\$70.150	500	\$35,075
	Sold	03/09/2001	\$70.580	500	\$35,295
	Sold	03/12/2001	\$65.100	500	\$32,550
	Sold	03/13/2001	\$60.750	500	\$30,375
	Sold	03/14/2001	\$61.370	500	\$30,685
	Sold	03/15/2001	\$64.630	500	\$32,315
	Sold	03/16/2001	\$65.140	500	\$32,570
	Sold	03/18/2001	\$62.110	500	\$31,055
	Sold	03/20/2001	\$62.100	500	\$31,050
	Sold	03/22/2001	\$53.930	500	\$26,965
	Sold	03/23/2001	\$57.730	500	\$28,865
	Sold	03/28/2001	\$56.800	500	\$28,400
	Sold	03/30/2001	\$56.610	500	\$28,305
	Sold	04/03/2001	\$55.900	500	\$27,950
	Sold	04/04/2001	\$54.060	500	\$27,030
	Sold	04/05/2001	\$54.880	500	\$27,440
	Sold	04/06/2001	\$54.750	500	\$27,375
	Sold	04/09/2001	\$54.540	500	\$27,270
	Sold	04/10/2001	\$58.100	500	\$29,050
	Sold	04/12/2001	\$57.850	500	\$28,925
	Sold	04/16/2001	\$58.240	500	\$29,120
	Sold	04/17/2001	\$60.770	500	\$30,385
	Sold	04/18/2001	\$61.690	500	\$30,845
	Sold	04/23/2001	\$60.940	500	\$30,470
	Sold	04/24/2001	\$62.180	500	\$31,090
	Sold	04/25/2001	\$62.050	500	\$31,025
	Sold	04/26/2001	\$63.210	500	\$31,605
	Sold	04/27/2001	\$62.980	500	\$31,490
	Sold	04/30/2001	\$63.060	500	\$31,530
	Sold	05/01/2001	\$63.050	500	\$31,525
	Sold	05/02/2001	\$61.770	500	\$30,885
	Sold	05/03/2001	\$58.730	500	\$29,365
	Sold	05/04/2001	\$58.860	500	\$29,430
	Sold	05/07/2001	\$58.670	500	\$29,335
	Sold	05/08/2001	\$57.000	500	\$28,500
	Sold	05/09/2001	\$57.090	500	\$28,545
	Sold	05/10/2001	\$58.350	500	\$29,175
	Sold	05/11/2001	\$57.560	500	\$28,780
	Sold	05/14/2001	\$58.510	500	\$29,255
	Sold	05/15/2001	\$58.080	500	\$29,040
	Sold	05/16/2001	\$57.120	500	\$28,560
	Sold	05/17/2001	\$55.050	500	\$27,525
	Sold	05/18/2001	\$53.750	500	\$26,875
	Sold	05/21/2001	\$55.160	500	\$27,580
	Sold	05/22/2001	\$55.060	500	\$27,530
	Sold	05/23/2001	\$55.660	500	\$27,830
	Sold	05/24/2001	\$55.110	500	\$27,555
	Sold	05/25/2001	\$53.810	500	\$26,905

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	05/29/2001	\$53.380	500	\$26,680
	Sold	05/30/2001	\$52.950	500	\$26,475
	Sold	05/31/2001	\$53.030	500	\$26,515
	Sold	06/01/2001	\$52.660	500	\$26,330
	Sold	06/04/2001	\$53.880	500	\$26,940
	Sold	06/05/2001	\$54.080	500	\$27,040
	Sold	06/06/2001	\$52.790	500	\$26,395
	Sold	06/07/2001	\$50.670	500	\$25,335
	Sold	06/08/2001	\$50.210	500	\$25,105
	Sold	06/11/2001	\$51.160	500	\$25,580
	Sold	06/12/2001	\$50.930	500	\$25,465
	Sold	06/13/2001	\$50.890	500	\$25,445
	Sold	06/14/2001	\$48.820	500	\$24,410
	Sold	07/13/2001	\$48.580	120,000	\$5,829,600
	Sold	07/13/2001	\$48.580	87,436	\$4,247,641
	Sold	07/13/2001	\$48.500	178,530	\$8,658,705
				1,138,370	\$72,786,034

Skilling, Jeffrey K.
CEO, President & COO

Sold	02/04/1999	\$31.970	1,848	\$59,081
Sold	04/16/1999	\$34.530	250,000	\$8,632,500
Sold	05/05/1999	\$76.850	60,000	\$4,599,000
Sold	05/06/1999	\$38.250	50,000	\$1,912,500
Sold	05/07/1999	\$76.250	25,000	\$1,906,250
Sold	10/18/1999	\$38.000	126,784	\$4,817,792
Sold	04/26/2000	\$73.880	10,000	\$738,800
Sold	04/27/2000	\$72.500	25,000	\$1,812,500
Sold	04/27/2000	\$73.880	25,000	\$1,847,000
Sold	04/27/2000	\$74.000	26,217	\$1,940,058
Sold	08/30/2000	\$86.130	15,000	\$1,291,950
Sold	09/01/2000	\$86.880	30,000	\$2,606,400
Sold	09/01/2000	\$87.250	15,000	\$1,308,750
Sold	09/05/2000	\$85.000	11,441	\$972,485
Sold	11/01/2000	\$83.240	60,000	\$4,994,400
Sold	11/01/2000	\$83.060	12,600	\$1,046,556
Sold	11/02/2000	\$82.340	20,000	\$1,646,800
Sold	11/07/2000	\$82.590	46,068	\$3,804,756
Sold	11/15/2000	\$80.310	10,000	\$803,100
Sold	11/22/2000	\$80.190	5,000	\$400,950
Sold	11/22/2000	\$77.080	5,000	\$385,300
Sold	11/29/2000	\$78.690	5,000	\$393,450
Sold	11/29/2000	\$74.190	5,000	\$370,950
Sold	12/06/2000	\$68.910	10,000	\$689,100
Sold	12/13/2000	\$77.080	10,000	\$770,800
Sold	12/20/2000	\$79.030	10,000	\$790,300
Sold	12/27/2000	\$83.000	10,000	\$830,000
Sold	01/03/2001	\$78.160	10,000	\$781,600

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	01/10/2001	\$69.200	10,000	\$692,000
	Sold	01/17/2001	\$68.940	10,000	\$689,400
	Sold	01/24/2001	\$80.280	10,000	\$802,800
	Sold	01/31/2001	\$79.690	10,000	\$796,900
	Sold	02/07/2001	\$80.370	10,000	\$803,700
	Sold	02/14/2001	\$80.420	10,000	\$804,200
	Sold	02/21/2001	\$74.780	10,000	\$747,800
	Sold	02/28/2001	\$69.540	10,000	\$695,400
	Sold	03/07/2001	\$89.520	10,000	\$895,200
	Sold	03/14/2001	\$61.410	10,000	\$614,100
	Sold	03/21/2001	\$59.240	10,000	\$592,400
	Sold	03/28/2001	\$58.660	10,000	\$586,600
	Sold	04/04/2001	\$54.100	10,000	\$541,000
	Sold	04/11/2001	\$59.500	10,000	\$595,000
	Sold	04/18/2001	\$61.300	10,000	\$613,000
	Sold	04/25/2001	\$62.050	10,000	\$620,500
	Sold	05/02/2001	\$61.780	10,000	\$617,800
	Sold	05/09/2001	\$57.140	10,000	\$571,400
	Sold	05/16/2001	\$57.300	10,000	\$573,000
	Sold	05/23/2001	\$55.520	10,000	\$555,200
	Sold	05/30/2001	\$52.950	10,000	\$529,500
	Sold	06/06/2001	\$52.740	10,000	\$527,400
	Sold	06/13/2001	\$50.680	10,000	\$506,800
				1,119,958	\$66,924,028

Belfer, Robert A.
Director

Sold	02/25/1999	\$33.190	6,000	\$199,140
Sold	03/10/1999	\$68.750	3,000	\$206,250
Sold	03/11/1999	\$71.000	1,000	\$71,000
Sold	09/02/1999	\$40.188	360,003	\$14,467,810
Sold	11/04/1999	\$39.700	57,000	\$2,262,900
Sold	11/08/1999	\$38.900	17,200	\$669,080
Sold	11/09/1999	\$38.340	25,800	\$989,172
Sold	11/11/1999	\$41.900	50,000	\$2,095,000
Sold	01/20/2000	\$56.760	8,000	\$454,080
Sold	03/01/2000	\$69.330	3,000	\$207,990
Sold	03/06/2000	\$70.200	6,000	\$421,200
Sold	03/07/2000	\$71.500	3,000	\$214,500
Sold	03/20/2000	\$71.000	1,500	\$106,500
Sold	03/23/2000	\$73.690	19,500	\$1,436,955
Sold	05/02/2000	\$75.750	15,000	\$1,136,250
Sold	05/11/2000	\$77.000	10,000	\$770,000
Sold	05/11/2000	\$76.000	5,000	\$380,000
Sold	05/15/2000	\$77.170	9,000	\$694,530
Sold	05/16/2000	\$77.890	4,500	\$350,505
Sold	08/30/2000	\$84.860	5,461	\$463,420
Sold	09/18/2000	\$89.060	10,800	\$961,848

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	11/06/2000	\$80.460	16,449	\$1,323,487
	Sold	02/14/2001	\$80.990	1,000	\$80,990
	Sold	02/26/2001	\$71.000	3,000	\$213,000
	Sold	03/09/2001	\$68.840	151,674	\$10,441,219
	Sold	05/23/2001	\$55.350	50,021	\$2,768,658
	Sold	07/27/2001	\$46.040	100,015	\$4,604,670
	Sold	09/21/2001	\$28.300	108,216	\$3,090,813
				1,052,138	\$51,080,967
Frevert, Mark A.	Sold	01/04/1999	\$29.150	15,120	\$440,748
Chairman	Sold	01/04/1999	\$29.150	40,850	\$1,190,778
Enron North America Corp.	Sold	01/08/1999	\$31.510	40,000	\$1,260,400
	Sold	04/30/1999	\$37.000	57,940	\$2,143,780
	Sold	04/30/1999	\$37.000	12,060	\$446,220
	Sold	04/30/1999	\$37.000	80,000	\$2,960,000
	Sold	04/30/1999	\$37.620	100,000	\$3,762,000
	Sold	01/20/2000	\$65.500	80,000	\$3,930,000
	Sold	01/21/2000	\$72.500	30,000	\$2,175,000
	Sold	05/11/2000	\$78.010	378	\$29,488
	Sold	05/11/2000	\$78.010	52,512	\$4,096,481
	Sold	05/11/2000	\$78.010	43,708	\$3,408,881
	Sold	09/11/2000	\$86.010	60,000	\$5,160,600
	Sold	09/12/2000	\$86.040	60,000	\$5,162,400
	Sold	12/18/2000	\$79.020	78,292	\$6,028,594
	Sold	12/18/2000	\$79.020	23,708	\$1,873,406
	Sold	12/19/2000	\$79.980	34,562	\$2,763,489
	Sold	12/20/2000	\$79.000	43,500	\$3,436,500
				830,620	\$50,289,504
Horton, Stanley C.	Sold	01/07/1999	\$29.970	38,800	\$1,165,833
Chairman & CEO	Sold	03/18/1999	\$68.640	24,000	\$1,647,360
Enron Transportation Services Co.	Sold	04/29/1999	\$36.040	33,340	\$1,201,574
	Sold	04/29/1999	\$36.040	17,608	\$634,582
	Sold	06/11/1999	\$40.470	540	\$21,854
	Sold	06/11/1999	\$40.000	32,290	\$1,291,800
	Sold	07/21/1999	\$42.890	40,000	\$1,707,600
	Sold	11/10/1999	\$39.560	50,000	\$1,978,000
	Sold	12/20/1999	\$41.000	25,000	\$1,025,000
	Sold	12/20/1999	\$41.000	4,402	\$180,482
	Sold	01/24/2000	\$67.010	70,000	\$4,690,700
	Sold	03/07/2000	\$70.010	10,000	\$700,100
	Sold	03/07/2000	\$70.010	30,000	\$2,100,300
	Sold	03/28/2000	\$75.200	25,000	\$1,880,000
	Sold	04/25/2000	\$73.780	25,000	\$1,844,500

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	05/09/2000	\$74.460	40,000	\$2,978,400
	Sold	08/24/2000	\$85.750	54,100	\$4,639,075
	Sold	08/25/2000	\$85.890	20,000	\$1,717,800
	Sold	08/28/2000	\$86.030	20,900	\$1,798,027
	Sold	09/14/2000	\$86.940	20,000	\$1,738,800
	Sold	09/28/2000	\$88.630	20,002	\$1,772,777
	Sold	12/27/2000	\$80.960	25,000	\$2,024,000
	Sold	01/29/2001	\$80.510	25,000	\$2,012,750
	Sold	03/07/2001	\$69.710	13,334	\$929,513
	Sold	05/14/2001	\$58.600	20,028	\$1,173,641
	Sold	06/01/2001	\$52.360	50,000	\$2,618,000
				734,444	\$45,472,278
Sutton, Joseph W. Vice Chairman	Sold	01/08/1999	\$32.000	30,000	\$960,000
	Sold	02/24/1999	\$34.000	40,000	\$1,360,000
	Sold	04/28/1999	\$36.020	81,288	\$2,927,994
	Sold	04/28/1999	\$36.020	18,672	\$672,565
	Sold	02/10/2000	\$68.450	61,900	\$4,237,055
	Sold	02/11/2000	\$68.020	28,100	\$1,775,322
	Sold	02/14/2000	\$68.000	12,000	\$816,000
	Sold	03/21/2000	\$70.110	18,672	\$1,308,064
	Sold	03/21/2000	\$70.110	4,668	\$327,273
	Sold	03/21/2000	\$70.110	78,860	\$5,374,633
	Sold	05/02/2000	\$78.000	100,000	\$7,600,000
	Sold	09/14/2000	\$87.000	50,000	\$4,350,000
	Sold	09/15/2000	\$88.140	50,000	\$4,407,000
	Sold	09/19/2000	\$69.940	15,000	\$1,349,100
	Sold	09/27/2000	\$87.000	15,000	\$1,305,000
	Sold	09/28/2000	\$88.190	8,000	\$528,140
	Sold	09/28/2000	\$88.130	9,000	\$793,170
				614,960	\$40,083,346
Baxter, John C. Vice Chairman	Sold	01/04/1999	\$28.970	2,000	\$57,940
	Sold	01/04/1999	\$28.970	8,000	\$231,760
	Sold	01/04/1999	\$28.900	5,464	\$157,910
	Sold	01/04/1999	\$29.060	10,000	\$290,600
	Sold	02/04/1999	\$31.250	32,120	\$1,003,750
	Sold	02/04/1999	\$31.340	262	\$8,211
	Sold	02/24/1999	\$32.610	5,814	\$189,585
	Sold	02/24/1999	\$32.610	25,000	\$815,250
	Sold	12/30/1999	\$43.420	25,000	\$1,085,500
	Sold	12/30/1999	\$43.420	45,844	\$1,990,546
	Sold	12/30/1999	\$43.420	2,064	\$89,619
	Sold	01/25/2000	\$64.000	7,000	\$448,000

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	01/25/2000	\$64.000	37,194	\$2,380,416
	Sold	01/25/2000	\$64.000	11,778	\$753,792
	Sold	01/25/2000	\$64.000	5,814	\$372,096
	Sold	01/31/2000	\$60.190	50,837	\$3,059,879
	Sold	01/31/2000	\$60.190	61,966	\$3,127,834
	Sold	01/31/2000	\$60.190	31,250	\$1,880,938
	Sold	03/22/2000	\$75.000	12,500	\$937,500
	Sold	07/11/2000	\$70.820	2,064	\$146,172
	Sold	10/31/2000	\$79.320	31,250	\$2,478,750
	Sold	01/02/2001	\$81.310	25,000	\$2,032,750
	Sold	01/02/2001	\$81.310	37,194	\$3,024,244
	Sold	01/02/2001	\$81.310	45,844	\$3,727,576
	Sold	01/11/2001	\$69.440	35,989	\$2,588,516
	Sold	01/29/2001	\$80.530	12,500	\$1,006,625
	Sold	01/31/2001	\$80.000	16,688	\$1,335,040
				577,436	\$35,200,808
Hirko, Joseph M. Senior VP	Sold	02/18/2000	\$69.390	5,430	\$376,788
	Sold	02/18/2000	\$69.390	15,390	\$1,067,912
	Sold	02/18/2000	\$69.390	4,907	\$340,497
	Sold	02/18/2000	\$69.390	30,000	\$2,081,700
	Sold	02/18/2000	\$69.390	20,000	\$1,387,800
	Sold	02/18/2000	\$69.390	17,460	\$1,211,549
	Sold	04/20/2000	\$70.700	130,650	\$9,236,955
	Sold	05/11/2000	\$78.050	192,000	\$14,985,600
	Sold	05/12/2000	\$77.240	58,000	\$4,479,920
				473,837	\$35,168,721
Fastow, Andrew S. Executive VP & CFO	Sold	01/08/1999	\$32.000	32,578	\$1,042,496
	Sold	01/08/1999	\$32.000	60,000	\$1,920,000
	Sold	03/18/1999	\$69.110	22,022	\$1,521,940
	Sold	04/30/1999	\$37.010	29,500	\$1,091,795
	Sold	04/30/1999	\$37.010	3,690	\$136,567
	Sold	04/30/1999	\$37.010	31,888	\$1,172,773
	Sold	04/30/1999	\$37.010	62,500	\$2,313,125
	Sold	04/30/1999	\$37.010	29,116	\$1,077,583
	Sold	04/30/1999	\$37.010	48,492	\$1,720,669
	Sold	04/30/1999	\$37.010	8,720	\$322,727
	Sold	03/27/2000	\$75.520	10,174	\$768,340
	Sold	03/27/2000	\$75.520	2,180	\$164,634
	Sold	03/27/2000	\$75.520	28,254	\$1,962,702
	Sold	03/27/2000	\$75.520	5,048	\$381,225
	Sold	03/27/2000	\$75.520	45,844	\$3,462,139
	Sold	03/27/2000	\$75.520	10,500	\$782,960

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	05/17/2000	\$75.500	31,547	\$2,381,799
	Sold	05/17/2000	\$75.500	46,494	\$3,510,297
	Sold	05/17/2000	\$75.500	4,996	\$377,198
	Sold	11/01/2000	\$83.000	24,196	\$2,008,268
	Sold	11/07/2000	\$83.000	27,884	\$2,314,372
				561,423	\$30,483,609
Causey, Richard A. Executive VP & Chief Accounting Officer	Sold	03/04/1999	\$32.560	18,484	\$601,188
	Sold	03/04/1999	\$65.130	6,000	\$390,780
	Sold	03/04/1999	\$32.560	30,528	\$993,827
	Sold	03/04/1999	\$65.130	4,190	\$272,895
	Sold	03/04/1999	\$32.560	4,256	\$138,575
	Sold	01/21/2000	\$72.000	25,000	\$1,800,000
	Sold	01/21/2000	\$71.000	9,232	\$655,472
	Sold	01/21/2000	\$71.000	5,040	\$357,840
	Sold	01/21/2000	\$71.000	3,800	\$255,800
	Sold	01/21/2000	\$71.000	2,128	\$151,088
	Sold	05/02/2000	\$75.080	7,814	\$586,575
	Sold	09/28/2000	\$87.890	10,174	\$894,193
	Sold	09/28/2000	\$87.890	19,666	\$1,727,565
	Sold	09/28/2000	\$87.890	21,155	\$1,859,313
	Sold	09/28/2000	\$87.890	2,128	\$187,030
	Sold	09/28/2000	\$87.890	7,000	\$615,230
	Sold	09/28/2000	\$87.890	5,048	\$443,669
	Sold	09/28/2000	\$87.890	15,592	\$1,370,381
	Sold	05/14/2001	\$58.760	482	\$28,322
				197,485	\$13,329,743
Derrick, James V. Jr. Executive VP & General Counsel	Sold	02/05/1999	\$31.000	18,470	\$572,570
	Sold	01/24/2000	\$65.250	10,710	\$698,828
	Sold	01/25/2000	\$64.000	10,710	\$685,440
	Sold	12/28/2000	\$86.000	30,770	\$2,648,220
	Sold	06/06/2001	\$53.200	10,000	\$532,000
	Sold	06/07/2001	\$50.920	60,000	\$3,055,200
	Sold	06/11/2001	\$50.880	18,000	\$915,840
	Sold	06/12/2001	\$50.560	18,000	\$910,080
	Sold	06/13/2001	\$50.590	18,000	\$910,620
	Sold	06/14/2001	\$49.000	18,000	\$882,000
	Sold	06/16/2001	\$47.080	18,000	\$847,440
				230,660	\$12,856,238
Koeing, Mark E.	Sold	01/25/2000	\$61.600	2,358	\$145,253

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
Executive VP, Investor Relations	Sold	01/25/2000	\$61.600	23,260	\$1,432,816
	Sold	01/25/2000	\$61.600	21,880	\$1,347,808
	Sold	03/23/2000	\$74.250	11,630	\$863,528
	Sold	03/23/2000	\$74.250	10,050	\$746,213
	Sold	08/24/2000	\$86.420	2,873	\$248,285
	Sold	08/24/2000	\$86.420	18,462	\$1,595,486
	Sold	08/24/2000	\$86.420	1,838	\$158,840
	Sold	08/24/2000	\$86.420	15,212	\$1,314,621
	Sold	05/03/2001	\$58.250	3,232	\$188,264
	Sold	05/03/2001	\$58.250	6,154	\$358,471
	Sold	05/03/2001	\$58.250	7,606	\$443,050
	Sold	05/03/2001	\$58.250	2,873	\$167,352
	Sold	05/03/2001	\$58.250	1,725	\$100,481
				129,153	\$9,110,466
Olson, Cindy K. Executive VP, Human Resources	Sold	02/16/2000	\$70.000	4,620	\$323,400
	Sold	02/16/2000	\$70.130	340	\$23,844
	Sold	02/18/2000	\$70.000	9,380	\$658,600
	Sold	08/24/2000	\$86.410	11,630	\$1,004,948
	Sold	08/24/2000	\$86.410	4,750	\$410,448
	Sold	12/08/2000	\$72.000	7,698	\$554,256
	Sold	12/22/2000	\$80.000	15,385	\$1,230,800
	Sold	12/22/2000	\$80.000	6,656	\$532,480
	Sold	12/22/2000	\$80.000	2,400	\$192,000
	Sold	02/08/2001	\$81.000	13,409	\$1,086,129
	Sold	03/08/2001	\$71.000	3,327	\$236,217
	Sold	03/08/2001	\$71.000	1,022	\$72,562
	Sold	03/08/2001	\$71.000	2,566	\$182,186
				83,183	\$6,505,870
Kean, Steven J. Executive VP & Chief of Staff	Sold	05/10/2000	\$74.440	4,560	\$339,446
	Sold	01/31/2001	\$80.000	42,922	\$3,433,760
	Sold	01/31/2001	\$79.840	17,450	\$1,393,208
				64,932	\$5,166,414
Buy, Richard B. Executive VP & Chief Risk Officer	Sold	01/02/2001	\$81.900	566	\$46,355
	Sold	01/02/2001	\$81.900	5,715	\$468,059
	Sold	01/02/2001	\$81.900	228	\$18,673
	Sold	01/02/2001	\$81.900	11,320	\$927,108
	Sold	01/02/2001	\$81.900	15,280	\$1,251,432
	Sold	01/26/2001	\$82.000	7,511	\$615,902
	Sold	03/05/2001	\$70.000	1,433	\$100,310

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
	Sold	03/05/2001	\$70.000	12,821	\$897,470
				54,874	\$4,325,309
McMahon, Jeffrey Executive VP, Finance & Treasurer	Sold	03/16/2000	\$69.120	4,476	\$309,381
	Sold	03/16/2000	\$69.120	3,828	\$264,591
	Sold	03/16/2000	\$69.120	5,206	\$359,839
	Sold	03/16/2000	\$69.120	15,280	\$1,056,154
	Sold	03/16/2000	\$69.120	9,892	\$689,911
	Sold	03/16/2000	\$69.120	1,148	\$79,350
				39,630	\$2,739,226
McConnell, Michael S. Executive VP, Technology	Sold	03/27/2000	\$76.440	1,500	\$114,660
	Sold	03/27/2000	\$76.440	748	\$57,177
	Sold	03/27/2000	\$76.440	6,978	\$533,398
	Sold	03/27/2000	\$76.440	1,734	\$132,647
	Sold	03/27/2000	\$76.440	940	\$71,854
	Sold	03/28/2000	\$75.750	19,080	\$1,443,795
				30,960	\$2,353,431
Duncan, John H. Director	Sold	05/09/2001	\$57.420	35,000	\$2,009,700
				35,000	\$2,009,700
Blake, Norman P. Jr. Director	Sold	10/31/2000	\$80.440	4,720	\$379,677
	Sold	10/31/2000	\$80.440	3,600	\$289,584
	Sold	10/31/2000	\$80.440	3,840	\$308,880
	Sold	10/31/2000	\$80.440	3,920	\$315,325
	Sold	10/31/2000	\$80.440	5,120	\$411,853
				21,200	\$1,705,326
Foy, Joe H. Director	Sold	02/25/1999	\$33.560	15,360	\$515,482
	Sold	03/18/1999	\$69.010	2,960	\$204,270
	Sold	03/18/1999	\$69.010	1,960	\$135,260
	Sold	03/18/1999	\$69.010	1,920	\$132,499
	Sold	01/21/2000	\$71.500	3,072	\$219,648
	Sold	01/21/2000	\$71.500	3,600	\$257,400
	Sold	01/21/2000	\$71.500	2,448	\$175,032
				31,320	\$1,639,590

Enron Corporation
Insider Sales

Insider	Transaction	Date	Split Adjusted Price	Split Adjusted Shares Sold	Proceeds
Metts, J. Mark Executive VP, Corporate Development	Sold	11/08/2000	\$81.810	13	\$1,064
	Sold	11/08/2000	\$81.810	3,206	\$262,283
	Sold	11/09/2000	\$81.810	1,670	\$136,623
	Sold	11/06/2000	\$81.810	12,822	\$1,048,968
				17,711	\$1,448,937
Lemaistre, Charles A. Director	Sold	01/06/1999	\$29.720	1,984	\$58,964
	Sold	12/28/1999	\$42.620	7,360	\$313,683
	Sold	05/10/2001	\$58.640	8,000	\$469,120
				17,344	\$841,768
Jaedicks, Robert K. Director	Sold	02/24/2000	\$65.940	5,360	\$353,438
	Sold	05/02/2001	\$61.000	8,000	\$488,000
				13,360	\$841,438
Chan, Ronnie C. Director	Sold	07/26/1999	\$42.150	8,000	\$337,200
				8,000	\$337,200
Gramm, Wendy L. Director	Sold	11/03/1998	\$27.000	640	\$17,280
	Sold	11/03/1998	\$27.000	2,304	\$62,208
	Sold	11/03/1998	\$27.000	2,800	\$75,600
	Sold	11/03/1998	\$27.000	1,632	\$44,064
	Sold	11/03/1998	\$27.000	2,880	\$77,760
				10,256	\$276,912
TOTALS:				17,344,588	\$1,102,544,672

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**Outline of Points to Discuss
With Ken Lay and Jim Derrick**

1. Scope of undertaking
 - a. Review of factual information raised by anonymous letter
 - b. Per early discussion with Jim Derrick, decision made not to engage independent accountant at this stage
 - c. Determine whether the facts warrant a further independent legal or accounting investigation
 - d. Caveats:
 - (1) No second-guessing of accounting treatment by AA
 - (2) No detailed transaction analysis
 - (3) No discovery-style investigation

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2. Activities undertaken

a. Review of selected documents

- (1) Board and committee minutes and presentations
- (2) Public filings
- (3) Deal approval sheets and investment summaries
- (4) Miscellaneous materials

b. Interviews with key Enron and AA personnel

- (1) Andy Fastow
- (2) Rick Causey
- (3) Rick Buy
- (4) Greg Whalley
- (5) Jeff McMahon
- (6) Jordan Mintz

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- (7) Mark Koenig/Paula Rieker
- (8) Sherron Watkins
- (9) David Duncan/Debra Cash (AA)

3. Identification of primary concerns

- a. Inherent conflict of interest by Andy Fastow's ownership in LJM
- b. Accounting treatment of Condor and Raptor structures
- c. Adequacy of disclosures to reflect the true nature of the Condor and Raptor vehicles
- d. Overlay of poor investment performance and impact on Enron's financial statements

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4. Conflict of interest – findings
 - a. LJM was fully disclosed and approved in advance
 - b. Special approval procedures were adopted and utilized on transactions involving LJM
 - c. LJM transactions were reviewed by audit committee and finance committee on annual basis
 - d. No apparent economic harm to Enron as a result of the following perceived conflicts of interest:
 - (1) Pressure on Enron employees who negotiated with LJM, but who ultimately report to Fastow
 - (2) Potential tie-in between Enron business and investment in LJM

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- 5. Accounting issues – findings
 - a. All material facts of Condor and Raptor transactions appear to have been disclosed to and reviewed by AA
 - b. In several areas, AA relied on business judgment of Enron
 - (1) Business purpose of specific transactions
 - (2) Valuation of assets placed in Condor and Raptor structures
 - c. Enron and AA representatives both acknowledge that the accounting treatment is aggressive, but no reason to believe inappropriate from a technical standpoint

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- d. AA's audit opinion and report to audit committee implicitly approves of the transactions involving Condor and Raptor structures

6. Adequacy of disclosures – findings

- a. AA is comfortable with the footnotes to the financials describing the Condor and Raptor structures and other LJM transactions
- b. One could always argue that disclosures contained in proxy solicitations, management's discussions and analysis of financials and financial footnotes could be more detailed

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- a. Concern frequently expressed that the transactions with Condor and Raptor would not look good if subjected to a Wall Street Journal exposé or a class action lawsuit
- b. The concerns are fueled by:
 - (1) use of Enron stock to support transactions with Condor and Raptor
 - (2) recognizing earnings through derivative transactions with Raptor when it could be argued that there was no true "third party" involved
 - (3) because both merchant investment value and Enron stock have fallen, the Raptor entities may not be able to repay their debt to Enron, thus raising the question "Who ultimately bears this loss?"

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(4) the inherent conflict of interest issue

(a) valuation

(b) timing

c. Notwithstanding these bad cosmetics, Enron representatives uniformly stated that the Condor and Raptor vehicles were clever, useful vehicles that benefitted Enron

8. Conclusion:

a. The facts disclosed through this review do not warrant further investigation by independent counsel and auditors.

b. Bad cosmetics and poor market conditions give rise to the serious risks of adverse publicity and litigation.

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- c. AA will want assurances that this review did not disclose facts previously unknown to them (which raises the issue of waiver of the attorney client privileges). AA will want the following assurances, at a minimum,
 - (1) that Enron had no agreement with LJM that LJM would not lose money;
 - (2) that Enron paid no fees to LJM in excess of those disclosed to AA.

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